The Economist

April 23th, 2011



Politics this week



A coalition of mainly Western countries continued to bomb pro-government military targets in **Libya**, as Muammar Qaddafi's forces intensified their siege of Misrata, Libya's third city and the closest one to Tripoli that is in rebel hands. Barack Obama was urged by the rebels and by many in the West to provide more aircraft that can attack targets in built-up areas with precision. Aid groups voiced concerns about the deteriorating living conditions of migrant workers trapped in Libya. See article

Protests continued in **Syria**, where the authorities blamed the rising violence on an "armed insurrection" by extreme Islamists. Security forces fired on anti-government protests in Homs, killing more than 15 people. Bashar Assad, Syria's president, lifted the decades-old emergency law and promised to free political prisoners. But the unrest showed no sign of abating. See article

Goodluck Jonathan, the incumbent, who hails from the mainly Christian south, won **Nigeria's** presidential election with about 60% of votes cast in a poll deemed more or less free and fair by international observers. But riots erupted in the mainly Muslim north, where Mr Jonathan's challenger, Muhammadu Buhari, had strong support. See article

A mutiny in **Burkina Faso's** army that began in the capital, Ouagadougou, spread to three other cities, as soldiers and police protested over unpaid housing allowances. In an effort to quell the uprising, Blaise Compaore, the president and a former coup leader, appointed a new government and a new head of the armed forces.

An eventual end in sight?

In **Japan** the Tokyo Electric Power Company proposed a "cold" shutdown of its damaged reactors at Fukushima, which would take up to nine months. Hillary Clinton, America's secretary of state, paid a visit to Japan to show support. Naoto Kan, the prime minister, who is under pressure from the opposition, formally apologised for the nuclear accidents caused by the earthquake and tsunami that struck in March. See article

Elections took place in the Indian state of **West Bengal**. Communist-led coalitions have held power for 34 years, but the Left Front looks set to lose this time. Results won't be tallied until May 13th, in part to protect polling stations from attacks by Maoist rebels. A recent election in **Kerala** might end another Communist coalition's grip on that state. See article

Binayak Sen, an **Indian activist** who was sentenced to life imprisonment on charges of aiding Maoist fighters, was freed on bail by India's Supreme Court. The court also cast doubt on the evidence against him. Mr Sen said he would continue to work towards a peaceful solution to the insurgency.



Castro's way

At the Congress of **Cuba's** ruling Communist Party, Raul Castro, the country's president since 2008, replaced his brother Fidel as party first secretary. He called for all of Cuba's political leaders to be limited to two five-year terms in office and

for a handover of power to a younger generation, though only three new members were elected to the 15-person Politburo. The Congress approved reforms that will see up to 1m Cubans move into a fledgling private sector of small businesses and allow property to be sold. See article

Bolivia's trade unions ended an 11-day general strike after the socialist government of Evo Morales agreed to raise public-sector wages by 11%, in line with the inflation rate.

Colombia's government declared that it would extradite Walid Makled, a suspected drug kingpin, to his home country of Venezuela rather than to the United States. The decision was in line with Colombia's law, but also comes amid a thawing of its relations with Venezuela.

Mexico's Competition Commission levied a fine of $1 billion on the Mexican division of America Movil, a cellphone company controlled by Carlos Slim, the world's richest man, for monopolistic practices. The company said it would appeal.

Debt watch

America's House of Representatives passed the alternative 2012 **budget plan** put forward by Paul Ryan, the Republican chairman of the budget committee. Not one Democrat voted for the plan; Harry Reid, the Democratic leader of the Senate, vowed that the legislation would not pass the upper chamber.

Meanwhile, Barack Obama set about trying to convince voters of the merits of his new **deficit-reduction** proposals, which he unveiled in response to Mr Ryan's plan. As Mr Obama embarked on his tour, S&P fired a warning shot to Washington by putting America's **credit outlook** on negative watch for the first time.

The Pentagon said it would move **Bradley Manning** to Fort Leavenworth in preparation for his trial. Mr Manning is the American soldier accused of passing diplomatic documents to WikiLeaks. Civil-liberties groups claim he was mistreated while held in detention at a marine corps prison in Virginia.

A flip of the Finns



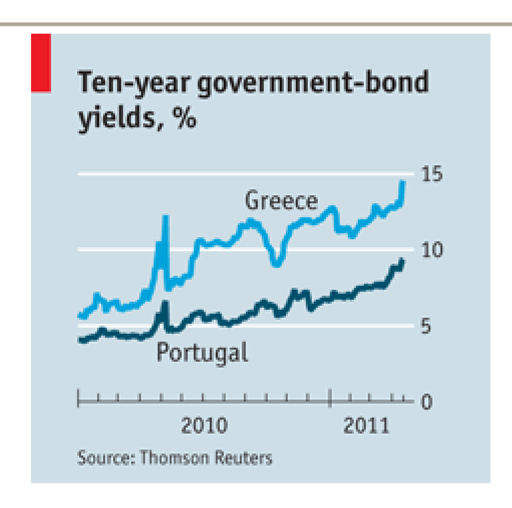
The politics of the euro zone's debt crisis became complicated when the True Finns, a hitherto obscure Eurosceptic party, took third place in an election in **Finland**. If the party joins government, as seems likely, Finland will take a tougher line on future bail-outs of troubled economies. An early victim could be Portugal, which began talks with European and IMF officials this week. See article

Hungary's parliament passed a rewritten constitution, which includes controversial sections on religion, marriage and ethnic Hungarians living abroad. Two opposition parties boycotted the vote.

Two Croatian generals were convicted of war crimes in The Hague and given lengthy prison sentences. The convictions relate to a military operation in August 1995, when ethnic Serbs were forced out of **Croatia's** Krajina region. Tens of thousands of Croatian war veterans took to the streets to protest against the verdict. See article

A row escalated between France and Italy over **migrants from north Africa**. France stopped Italian trains carrying migrants from crossing the border, claiming they posed a threat to public order. Italy retorted that France was violating the rules of Europe's passport-free Schengen area. The European Commission said France's act was legal.

Business this week



Comments by Wolfgang SchÃ¤uble, Germany's finance minister, and others about the possibility that **Greece** would have to restructure its debt unsettled financial markets. Greece received a bail-out from the European Union and the IMF last May. The terms of the rescue package expire in 2013, and some expect Greece to restructure before then. The yields on government bonds issued by Greece and other troubled economies in the euro zone soared after Mr SchÃ¤uble's remarks. See article

The commodity effect

A range of data from various countries showed **inflation** accelerating during March. The euro area's annual inflation rate rose to 2.7%, as prices jumped for items other than food and energy. The news came shortly after the European Central Bank had decided to increase interest rates for the first time in three years. America reported that different factors lay behind a rise to 2.7% in its consumer-price index. The chief cause was higher petrol prices; the cost of most consumer goods barely increased.

In **India** headline inflation (measured by wholesale rather than retail prices) leapt to nearly 9%, compared with 8.3% in February. And in **China** consumer prices recorded their biggest increase since July 2008, rising by 5.4% year-on-year. In another effort to try to dampen consumer lending, China boosted the required level of reserves that banks must deposit with the central bank, for the fourth time this year.

A meeting of finance ministers from the **G20** agreed to the "indicative guidelines" that would be used in future stress tests of their economies. Particular attention will be given to the seven members of the G20 that account for most of the body's output, which include China and India. Under the proposals, the IMF will look at national policies on levels of debt, budget deficits and trade balances to decide whether a country poses a threat to the world economy.

Bank of America's troubles continued as it shook up its executive team and appointed a new chief financial officer. The bank has not been doing as well as its competitors. Its net profit in the first quarter was 36% lower than a year earlier, its share price has fallen by 30% over the past 12 months, and it performed badly in the stress tests of American banks, prompting the Federal Reserve to reject its plans for a modest increase in its shareholder dividend. See article

Citigroup's quarterly profit dropped sharply, to $3 billion, as its consumer-banking business continues to struggle in America. Quarterly income at **Goldman Sachs** was also lower, though it fared better than expected. The investment bank reported net revenue of $11.9 billion and net earnings of $2.7 billion.

A court in Milan cleared Bank of America, Citigroup, Deutsche Bank and Morgan Stanley on charges related to the collapse of **Parmalat**. Dubbed "Europe's Enron", Parmalat filed for bankruptcy in 2003; the dairy company's founder was eventually sentenced to 18 years in prison for fraud. The four banks were accused in the trial of trying to mislead investors about Parmalat's situation.

A date to remember

The American government reopened the last maritime area off the Gulf coast that had been closed to fishing because of the **BP oil spill**. The final lifting of the ban came the day before the first anniversary of the blowout on the Deepwater Horizon well, which killed 11 workers. See article

Federal prosecutors shut down the three biggest **online poker** sites in the United States, charging their owners with fraud and money-laundering. Congress banned banks from handling internet-gambling money in 2006. Poker sites have remained open for business, as their operations are run from outside America, in places such as the Isle of Man. See article

Synthes, which makes medical devices and sells many of the plates and screws used for treating broken bones, confirmed that **Johnson & Johnson** had approached it about a takeover. Any potential deal is thought to be worth around $20 billion, which would be J&J's biggest acquisition to date. The health-care company's profit was much reduced in the first quarter because of a rash of product recalls, including artificial hips. See article

Pietro Ferrero, the 48-year-old boss of Ferrero, an Italian confectionery group whose brands include Nutella and Kinder, died in a cycling accident in South Africa.

Hope he's told the council

A record pound136m ($223m) was paid for a **residence in London**. A Ukrainian tycoon is believed to be the buyer of two flats in a plush new development bordering Hyde Park, which he will convert into a penthouse, if he can get planning permission. See article

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KAL's cartoon



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Lessons from California

The perils of extreme democracy

California offers a warning to voters all over the world



CALIFORNIA is once again nearing the end of its fiscal year with a huge budget hole and no hope of a deal to plug it, as its constitution requires. Other American states also have problems, thanks to the struggling economy. But California cannot pass timely budgets even in good years, which is one reason why its credit rating has, in one generation, fallen from one of the best to the absolute worst among the 50 states. How can a place which has so much going for it-from its diversity and natural beauty to its unsurpassed talent clusters in Silicon Valley and Hollywood-be so poorly governed?

It is tempting to accuse those doing the governing. The legislators, hyperpartisan and usually deadlocked, are a pretty rum bunch. The governor, Jerry Brown, who also led the state between 1975 and 1983, has (like his predecessors) struggled to make the executive branch work. But as our special report this week argues, the main culprit has been direct democracy: recalls, in which Californians fire elected officials in mid-term; referendums, in which they can reject acts of their legislature; and especially initiatives, in which the voters write their own rules. Since 1978, when Proposition 13 lowered property-tax rates, hundreds of initiatives have been approved on subjects from education to the regulation of chicken coops.

This citizen legislature has caused chaos. Many initiatives have either limited taxes or mandated spending, making it even harder to balance the budget. Some are so ill-thought-out that they achieve the opposite of their intent: for all its small-government pretensions, Proposition 13 ended up centralising California's finances, shifting them from local to state government. Rather than being the curb on elites that they were supposed to be, ballot initiatives have become a tool of special interests, with lobbyists and extremists bankrolling laws that are often bewildering in their complexity and obscure in their ramifications. And they have impoverished the state's representative government. Who would want to sit in a legislature where 70-90% of the budget has already been allocated?

They paved paradise and put up a voting booth

This has been a tragedy for California, but it matters far beyond the state's borders. Around half of America's states and an increasing number of countries have direct democracy in some form (article). Next month Britain will have its first referendum for years (on whether to change its voting system), and there is talk of voter recalls for aberrant MPs. The European Union has just introduced the first supranational initiative process. With technology making it ever easier to hold referendums and Western voters ever more angry with their politicians, direct democracy could be on the march.

And why not? There is, after all, a successful model: in Switzerland direct democracy goes back to the Middle Ages at the local level and to the 19th century at the federal. This mixture of direct and representative democracy seems to work well. Surely it is just a case of California (which explicitly borrowed the Swiss model) executing a good idea poorly?

Not entirely. Very few people, least of all this newspaper, want to ban direct democracy. Indeed, in some cases referendums are good things: they are a way of holding a legislature to account. In California reforms to curb gerrymandering and non-partisan primaries, both improvements, have recently been introduced by initiatives; and they were pushed by Arnold Schwarzenegger, a governor elected through the recall process. But there is a strong case for proceeding with caution, especially when it comes to allowing people to circumvent a legislature with citizen-made legislation.

The debate about the merits of representative and direct democracy goes back to ancient times. To simplify a little, the Athenians favoured pure democracy ("people rule", though in fact oligarchs often had the last word); the Romans chose a republic, as a "public thing", where representatives could make trade-offs for the common good and were accountable for the sum of their achievements. America's Founding Fathers, especially James Madison and Alexander Hamilton, backed the Romans. Indeed, in their guise of "Publius" in the "Federalist Papers", Madison and Hamilton warn against the dangerous "passions" of the mob and the threat of "minority factions" (ie, special interests) seizing the democratic process.

Proper democracy is far more than a perpetual ballot process. It must include deliberation, mature institutions and checks and balances such as those in the American constitution. Ironically, California imported direct democracy almost a century ago as a "safety valve" in case government should become corrupt. The process began to malfunction only relatively recently. With Proposition 13, it stopped being a valve and instead became almost the entire engine.

You don't know what you've got till it's gone

All this provides both a hope and a worry. The hope is that California can right itself. Already there is talk of reform-though ironically the best hope of it may be through initiatives, since the push for a constitutional convention died last year for lack of money. There is talk, too, of restoring power and credibility to the legislature, the heart of any representative democracy. That could be done by increasing its unusually small numbers, and making term limits less onerous.

More important, direct democracy must revert to being a safety valve, not the engine. Initiatives should be far harder to introduce. They should be shorter and simpler, so that voters can actually understand them. They should state what they cost, and where that money is to come from. And, if successful, initiatives must be subject to amendment by the legislature. Those would be good principles to apply to referendums, too.

The worry is that the Western world is slowly drifting in the opposite direction. Concern over globalisation means government is unpopular and populism is on the rise. Europeans may snigger at the bizarre mess those crazy Californians have voted themselves into. But how many voters in Europe would resist the lure of a ballot initiative against immigration? Or against mosque-building? Or lower taxes? What has gone wrong in California could all too easily go wrong elsewhere.

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Removing the Qaddafis

Crunch time in Libya

The allies are sending out dangerous signs of confusion just when resolution is most needed



ONLY five weeks after Western aircraft flew their first sorties over Libya, the fight has already become wearily familiar. The rebel advance and Colonel Muammar Qaddafi's claw back towards the east have been succeeded by what looks like stalemate. The outrage that united the world against the threat of butchery in Benghazi has begun to dull. The coalition's different interests have reasserted themselves.

The particular argument at the moment is about whether America will supply the special aircraft needed to attack the colonel's troops in urban areas (especially wretched Misrata where his men have been committing atrocities). Barack Obama has been stalling, the Europeans hyperventilating. The aircraft are desperately needed and losing Misrata would be a hefty blow (see article), but the worry is that the dithering is symptomatic both of a broader reluctance to see the job through and division over how it should be done. It is the moment in a campaign when, for the lack of application and clear thinking, the endeavour is in danger of slipping away. It is crunch time, when commitment counts.

The reckoning

Recall what is at stake in the deserts of north Africa. Non-interventionists on both sides of the Atlantic grumble that the West has "no dog in this fight". Cynics say that Arabs have never "done democracy" and ridicule the Libyan rebels as a hotch-potch of chancers with bogus claims to be democratic and some nasty jihadists in their midst. Behind it all lies the spectre of Western troops sinking into yet another quagmire, as they did in Iraq and Afghanistan. Where, people ask, is the timetable, the exit strategy or the definition of the mission? The partition of Libya is said to be probable. Mission creep is afoot.

Yet there is no reason why mission creep should turn Libya into a quagmire. Libya is emphatically not Iraq or Afghanistan. The effort against Colonel Qaddafi is tiny by comparison. Libya has no IEDs, no Green Zone, no American proconsul. There is not, will not and should not be an invading force of ground troops. Libya is a different sort of operation.

The aims of intervening there are both humanitarian and idealistic but also political and pragmatic. And on all fronts, a lot more has been going right than wrong. For a start, thousands of lives have been saved, in Benghazi and elsewhere across the country, since the colonel has been prevented from unleashing his vengeance on those who sought, at first peacefully, to express their opposition to him. Misrata is a reminder of the horrors averted in eastern Libya.

The sceptics claim that this fight is no one else's business, but the entire world will be better off if a region of 350m Arabs that has been stuck in poverty and dysfunctional politics since the collapse of the Ottoman empire a century ago is given a chance to come alive. All too often, before the Arab spring, the choice was between a fatalistic torpor under authoritarian leaders such as Hosni Mubarak or the delusions of extremists such as al-Qaeda. Suddenly Arabs are being asked to shed the culture of victimhood, take responsibility for themselves and uncork the creativity of their young.

As for the racist assertion that Arabs cannot be democrats, nobody expects full-fledged democracies to appear instantly. The creation of better Arab governance will be a messy, uncertain process, but it is better than stagnation under vicious

autocrats like Syria's Bashar Assad (see article). The momentum for this historic change is the other prize at stake in Libya. The mission will be accomplished when the Qaddafis are replaced by a more inclusive government, with UN oversight.

Such talk of regime change alarms many. The pacifist brigade complain that calls by Mr Obama and his British and French friends, David Cameron and Nicolas Sarkozy, to get rid of the colonel exceed the terms of the UN Security Council resolution. So, they add, do the bombs dropping on Tripoli.

Yet this venture is unarguably legal: the UN resolution endorses "all necessary measures", barring an occupying force, to protect civilians. That helpful elasticity plainly gives the intervening coalition the right to bomb military assets, such as tanks and artillery, that the colonel is using to fire indiscriminately at civilians. The resolution does not call for the colonel's removal but, as commander-in-chief of his forces, he has been responsible for crimes against humanity. A true peace, in which Libyans can freely express their opinion on the streets, cannot return for as long as he remains in power.

It's in America's interest too

The Libyan venture is still tilting towards success, but the fall of Misrata, a loss of collective Western nerve or a few military or diplomatic missteps could tip it the wrong way. And here Mr Obama is crucial.

That is not to deny that his allies could do more. It would be helpful if other Arabs, especially Egypt, joined Qatar, the United Arab Emirates and Jordan in supporting the rebels. Too many Europeans, such as Italy and Spain, have also been reticent - despite their insistence that European hard power still matters. In the past European air forces foolishly did not equip themselves with enough ground-attack aircraft of the sort that could now pulverise the colonel's hardware with precision in built-up areas. And they have compounded this weakness by failing to put enough fighter jets in the sky.

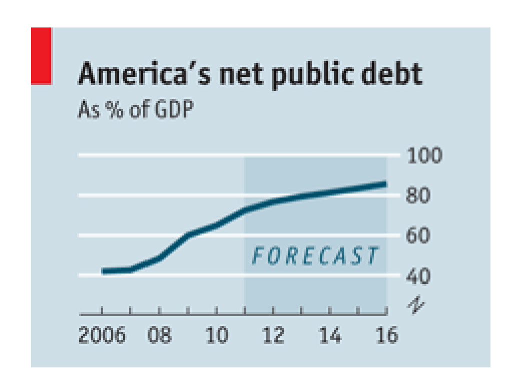
But it is Mr Obama's full weight behind the enterprise that has been most missed. Acutely aware of the mess caused by his predecessor in Iraq, he was right to take a back seat when the Arab upheavals began. Yet over Libya he has held back too much. No one wants the American cavalry to charge in on the ground and in war you can never guarantee the outcome you seek. But Mr Obama should not withhold American aircraft in the calculation that he can keep his hands clean. Alongside the Europeans and Arabs, he should send trainers, spotters, logistical and telecoms support to bolster the rebels, as the UN resolution allows him to do. No matter what the polls say back home, the American president is in this now; and voters will only applaud when he is successfully out of it. If ever there was a time for calculation to give way to resolution, it is now.

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America's credit rating

Wakey, wakey

Standard & Poor's may not have said anything new. That's no reason for American politicians to ignore it



CREDIT-RATING agencies are notorious for announcing with great fanfare what has been obvious to financial markets for months. That may explain why investors were only briefly perturbed when Standard & Poor's (S&P) issued its first

warning in 70 years that America's credit rating was in jeopardy because of its public debts. Share prices lurched downwards but soon stabilised. Bond yields actually declined.

It is easy to think of other reasons to shrug shoulders. S&P did not lower America's top-tier AAA rating on April 18th; it assigned it a negative outlook-a threat that if debt remains on its present course, a downgrade will ensue. It puts the chances at one in three. Changes in ratings are usually lagging indicators, following rather than causing economic hardship. Moody's stripped Japan of its AAA rating in 1998; S&P followed in 2001. Further downgrades have come since. But despite the rich world's heaviest debt burden, Japan still borrows at rock-bottom rates, thanks to deflation and the loyalty of its savers.

True, America depends more than Japan on foreign lenders. But it is not, as some claim, a few steps behind Greece on the road to fiscal ruin. Greece has a greater debt burden, a history of default and book-cooking, and no control over the currency in which it borrows. America has stable, transparent institutions and issues the dominant reserve currency. Many investors would have to hold US treasuries even at a lower rating; and the bonds' appeal has if anything been enhanced this week by discussion of Greek default (see article). Most investors care less about America's credit rating than about its low underlying inflation, loose monetary policy and oddly weak economic growth (see article). They also believe that its policymakers will eventually find the political will to bring the government's deficit under control. Haven't they always?

The danger that this time they might not is why S&P's declaration should not be dismissed out of hand. History offers few clues on the consequences of a downgrade to the world's dominant risk-free asset. The dollar and treasury bonds and bills play a central role in the world monetary system.

Just as important, the fact that America's fiscal problems have finally roused a ratings agency only underlines how advanced they are. The trouble is not that the deficit and debt are high-that is the inevitable result of crisis and recession-but the lack of a plan to bring them down. Britain, France and Germany all have AAA ratings and lots of debt. But as S&P notes, they have credible medium-term plans to bring it under control. The IMF thinks that in all three the ratio of net debt to GDP will be lower in 2016 than today. In America it will be higher.

Meanwhile in Washington...

In recent weeks America's policymakers have at last begun to stir. Republicans in Congress and Barack Obama have proposed competing ways of cutting the budget deficit to 2% of GDP or less in a decade's time from nearly 10% this year, putting the debt ratio on a downward path.

But they disagree on how to get there. Republicans would do so entirely by cutting spending; Mr Obama wants higher taxes too. This newspaper has long argued that spending should bear the brunt, while accepting that taxes must also play a part. Mr Obama now accepts this, although he has yet to admit that taxes on the middle class, not just the rich, must go up. Republicans in the House of Representatives, however, refuse to consider any tax increase. This standoff risks delaying an essential increase in the legal limit on Treasury debt, calling into question AmericaÂ’s ability to honour its obligations.

S&P may have only told Americans what they already know. But a plan to cut the deficit is long overdue.

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Africa and China

Rumble in the jungle

Why the Beijing regime needs to act to avert a backlash against Chinese investors in poor countries



CHINA has a competitive advantage that is rare among economic powers investing in faraway developing countries: a lack of ancient hostility. In the past decade Chinese investors have been welcomed with open arms in places where Western colonial powers once misbehaved and their descendants sometimes still arouse suspicion.

Hundreds of thousands of Chinese have comfortably set up shop in Africa, bringing with them economic growth and useful technical skills. Their government, eager to loosen constraints on resources and industrial expansion at home, supports them with abundant loans. Africa now supplies 35% of China's oil. Two-way trade grew by 39% last year.

China deserves credit for engaging a continent that desperately needs investment. Millions of Africans are using roads, schools and hospitals built by Chinese companies or financed with fees from resources they extracted. Not surprisingly, many African leaders have embraced the Chinese, especially when offered vast loans for infrastructure projects. By contrast, the leaders say, Western governments these days offer little more than lectures on good governance.

But the honeymoon is coming to an end (see article). Growing numbers of Africans are turning against the saviours from the East. They complain that Chinese companies destroy national parks in their hunt for resources and that they routinely disobey even rudimentary safety rules. Workers are killed in almost daily accidents. Some are shot by managers. Where China offers its companies preferential loans, African businesses struggle to compete. Roads and hospitals built by the Chinese are often faulty, not least because they bribe local officials and inspectors. Although corruption has long been a problem in Africa, people complain China is making it worse.

From welcome to backlash

This antipathy should worry the Chinese government. Granted, it is unlikely to lose access to resources controlled by friendly dictators who have benefited personally from China's arrival. But its ambitions stretch far beyond securing resources. Chinese companies, private as well as publicly owned, are investing in farming, manufacturing and retailing. Many depend on co-operation with a wide array of increasingly unhappy locals. In Dar es Salaam, Tanzania's commercial capital, Chinese are banned from selling in markets. In South Africa their factories face closure at the hands of enraged trade unions.

Moreover, China's investments spread far beyond Africa. Stains on China's reputation are harming its commercial plans elsewhere-and governments in other continents will be keener than African politicians have been to find reasons to put obstacles in China's way. A Chinese construction firm had an ear-bashing when bidding for a Polish motorway contract, in part because an Angolan hospital the company had built fell apart within months of opening its doors.

China's government says it can do little about bad eggs among its expatriates. In fact it can do plenty. It might start by enforcing the many sensible international rules it has signed up for, such as the UN Convention Against Corruption. Some Chinese officials and businessmen are punished for bribery at home; the same should apply abroad. Treating financial dealings with African governments as a state secret, as China does, aids embezzlers and fuels suspicion.

Expecting much more than this, you might say, is hopelessly naive. For a start, the Chinese government has a foreign-policy doctrine of not interfering in the internal affairs of other countries. Even such an apparently modest step as training African officials in enforcing business rules could fall foul of this. When China so often seems indifferent to the rape of its own countryside or to working conditions in factories and mines at home, there may be no reason to expect it to foster better conditions abroad. And it dislikes lectures from Westerners whose own history in Africa lays them open to charges of hypocrisy.

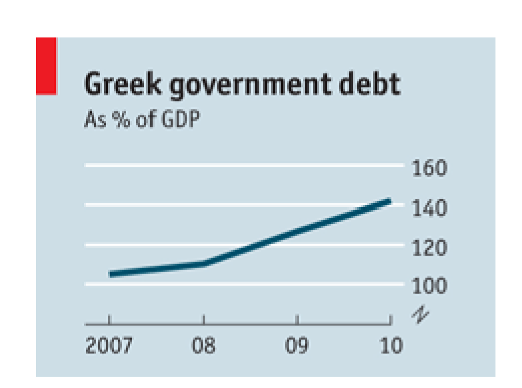
Yet China's rulers may find that it is increasingly in their own country's interest to demand better behaviour from its companies. As an economic giant with global ambitions it may have little choice-as America learnt a century ago. It is in the interest of a big trading power to ensure that markets function well, and that its businesses are welcomed, not feared and distrusted-especially when they have often done good.

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The euro area's debt crisis

Latin lessons

There is a model for how to restructure Greece's debts



AT FIRST sight, Greece's debt crisis has taken another turn for the worse. Yields on its government bonds have soared, rising above 20% on two-year paper on April 18th. But what seems to be bad news may in fact be good.

Greek bond yields are spiking because European policymakers now seem to be acknowledging what this newspaper has long argued was inevitable: Greece's debt will need to be restructured. Even Wolfgang SchÃ¤uble, Germany's finance minister, appears to be open to the idea. The official line, admittedly, remains that restructuring is not an option; and the European Central Bank still has its head firmly in the sand. But the debate in Europe is finally shifting from how to avoid a Greek restructuring to how to do it (see article).

This is to be welcomed-but with a reservation: even as Europe's leaders start to consider restructuring, there are worrying signs that they will shrink from doing it boldly enough. That is because the continent's politicians are not chiefly motivated by the desire to cut Greece's debt burden to a sustainable level. The Germans, in particular, have two concerns closer to home. The first is to minimise Greece's need for more cash from German taxpayers: the current plan is for Greece to return to the markets next year, which is plainly implausible. The second is to protect German banks, many of which hold Greek bonds, which makes them reluctant to accept any debt write-down. These two concerns point to a modest "reprofiling", which temporarily defers Greece's debt payments but does not come close to restoring its solvency. Realisation would merely be postponed.

Follow Brady, not Baker

The debate about Greece now has a Latin American dimension. Those who favour deferral point to Uruguay. In 2003 the small Latin American country convinced its creditors to swap their bonds for new ones with the same principal, same interest rates and five years' longer maturity. That reduced the effective burden of the South American country's debt by around 15% at little cost: soon afterwards it was borrowing again in international markets. Greece, goes the hope in Berlin,

could do the same. Putting off bond repayments for a few years would mean that the official rescue funds would last longer. You could lean on financial regulators to allow Europe's banks to continue valuing their bonds at par.

The trouble is that Greece in 2011 is not Uruguay in 2003. Greece's debt stock, set to reach 160% of GDP in 2012, is almost twice as high as Uruguay's was. Greece is unlikely to enjoy a fortunate run of strong economic growth, as Uruguay has, clocking up a rate of 6.1% a year thanks to the global commodity boom. Modest reprofiling will not, therefore, put Greece's public finances onto a sustainable footing. At best it will buy time. A deeper reduction, not deferral, is needed.

A more accurate and worrying Latin American parallel is the debt crises of the 1980s. Greece is bust, just as Mexico (followed by several others) was in 1982. The exposure of America's big banks to Latin America was enormous; formal write-downs of debt would have left many of them insolvent. A plan named after James Baker, then America's treasury secretary, offered the Latin Americans a temporary rescheduling (similar in spirit to the sort of scheme being discussed for the Greeks today). It gave the American banks more time to recover, but Latin America's economies buckled under the burden of debts that could not be repaid. In 1989 another plan, named after another treasury secretary, Nicholas Brady, provided the necessary debt reduction. But Latin America lost a decade. In 1992 income per person was still lower than ten years before.

Greece needs a Brady plan, not a Baker one. Such a restructuring would hurt some European banks, especially Greek ones, which would need extra official help. Overall the hit to Europe's banks is manageable, and it is far better to push them to boost their capital than to pretend unpayable debt is whole. None of this will be easy to sell to voters (Finnish ones vented their anger this week-see article). But the longer that politicians lie to them about reality, the angrier they will get.

The reality is that Greece's debt burden needs to fall by at least half. European officials could offer a menu of ways to achieve that: reducing the principal owed, cutting interest rates or radically lengthening maturities. They could sweeten the terms with guarantees, as the Brady bonds did, and offer investors a share in any Greek recovery with warrants related to the country's future economic growth. The interest rates on new official loans might also be made contingent on growth rates. There are creative ways to make default less painful; trying to pretend it will not happen is not one of them.

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Lessons from Deepwater Horizon and Fukushima

In place of safety nets

Don't assume disasters won't happen at the frontiers of technology-presume they will


EPA/AP

TECHNOLOGY does not inflate like a balloon, expanding human power over nature evenly in all directions and at all scales. It grows like a sea urchin: long spines of ability radiate out towards specific needs and desires. Some of those spines now reach dizzying distances, allowing what would once have been impossible tasks; coaxing kilowatt hours by the million from the inner workings of atoms, or driving tiny oil pipes miles through the crust of the Earth. But the spines are brittle, and they stand alone. When one breaks-as happened on board the Deepwater Horizon rig in the Gulf of Mexico a year ago (see article), or at the Fukushima Dai-ichi nuclear plant in Japan last month-there is no ameliorative technology on a par with that which has failed. Instead there is floundering; there is improvisation; and there is vast damage. What was a continuous, miraculous conduit from the depths of the Earth or the heart of the atom becomes a noxious, tangled and inaccessible mess about which, for months, nothing can be done.

There is no way to fill in the space between the spines so that they are proof against catastrophe, or easily fixable at any point of failure. But there are rules that can make it easier to cope with the failures of such brittle technologies.

The first is that the firms involved have to accept that even if things seem safe and sure in day-to-day operations, disasters still happen. For years before Deepwater Horizon the oil industry planned on the basis that the blowout preventers on top of wells would live up to their name. The nuclear industry routinely tells itself that partial meltdowns such as that at Fukushima are less likely than the record shows them to be.

The second rule is to develop at least some broadly applicable technologies for repair and remediation before they are needed. The oil firms in the Gulf of Mexico are putting together a $1 billion system to cap leaking wells which could quite plausibly have been developed two years ago, or even five. Fukushima and other nuclear plants seem oddly lacking in robotic access to places where workers cannot or should not go. Such aids won't always work; but they will sometimes.

For the other times when you have to improvise, invoke rule three: situational awareness is invaluable. Steven Chu, America's energy secretary, was reportedly shocked to find that the only source of information from the Deepwater Horizon's blowout preventer was a single gauge. So he should have been. Sensor systems for getting information out of containment vessels, off sea floors and from all sorts of other out-of-the-way places should be deployed widely and in redundant ways. They should also be kept independent of the related systems used for control; you want them to work even if-especially if-the control system does not.

Make the case

Getting companies to follow these rules is the business of regulators, which can cause problems of its own. Companies can and will kick back against regulation that simply forces ever more onerous, expensive, open-ended duties onto them, and working out when such duties are justified and when they are not is hard. One solution to the problem of ever-growing requirements is "safety case" regulation: rather than demand that companies simply meet a predefined standard of safety, have them make a reasoned case that their actions are safe under all plausible scenarios, and put that case to the test.

A safety-case approach is widely seen as having helped the North Sea avoid more accidents like Piper Alpha, a rig explosion in 1988 that claimed 167 lives. It may not be appropriate to all technologies or locations. It requires moderately long-term relationships and regulatory expertise, and fails in situations, such as banking, where systemic risk means that the company being regulated will not be the only victim of failure. But at its best it can combine the benefits of being both confrontational and collegiate. Better still if the companies make not just a case for safety, but also a case for their ability to react when things do go wrong, and they find themselves in the uncharted space between the spines of well developed technology. It really does help to think about the unthinkable.

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Letters

On Hungary's constitution, Paul Ryan, counter-insurgency, Berkshire Hathaway, Germany's Greens, the American south, religion, BP in Russia

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Letters are welcome via e-mail to letters@economist.com

A strong constitution



SIR - Your article on a new Hungarian constitution ("Goulash soup", April 9th) emphasised the need for the country to renew its basic law as the old one was a legal mishmash, partly inherited from the communist era. Hungary is the only country in central and eastern Europe that has not changed its constitution since the end of communism; adopting a new one has been an aim of every government since 1989.

There are many untruths being peddled about the new constitution. Its main aim is to secure the liberty and rights of individuals and communities. But it also seeks to define us as a nation. References to Christianity and the Holy Crown are simply an acknowledgment of the importance that they have played in Hungarian history. The new constitution will protect ethnic, cultural and religious diversity in full accordance with the European Union's Charter of Fundamental Rights.

A fresh round of domestic debate began after the election in April last year. Numerous discussions have since been held with Hungarian and international experts, think-tanks and academic institutions. To say the new constitution is being rushed through with limited consultation is baseless.

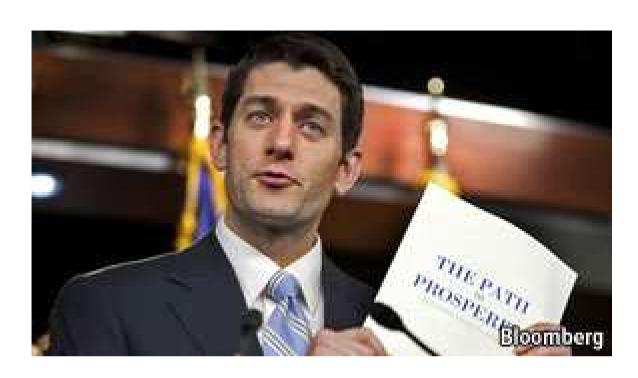
Much criticism of the government stems from the two-thirds majority it won at the last election. Clearly a majority of this size needs to be handled with prudence. The Hungarian people gave a clear mandate for change and the government continues to enjoy strong support, which suggests that it has delivered during its first year in office.

Janos Csak
Ambassador for Hungary
Member, National Consultation Committee on the Constitution
London

Imperfect praise

SIR - Your support of Paul Ryan's "Path to Prosperity" plan ("Praising Congressman Ryan", April 9th) missed the clear politicking of its creation in the first place. In no way is his plan "brave" or "courageous" when it panders to the Republicans' primary source of internal pressure, the tea party. Shouldn't we be wary of a plan that promises to solve so much on the macro level, while promoting a cynical agenda of party politics?

Leslie Rogne Schumacher
Minneapolis



SIR - Many elderly Americans will be baffled by your description of Medicare as an "all-you-can-eat buffet of care ...paid for by government-run insurance". The plan is not free. Retirees must pay a monthly fee of at least $115 to receive basic services. This amount can double if coverage for prescription drugs is included. As the payment is means-tested, the

wealthier pay more. And that is for access alone. Participants then face a bewildering hotchpotch of additional fees, deductions, limits and restrictions to services. Not really the generous government-funded beanfeast you suggested.

Peter Spurging
Seattle

SIR - From Paul Ryan-the congressman who voted for two unaffordable wars, the unfunded Prescription Drug Benefit and an $800 billion tax cut for millionaires-now comes this visionary budget proposal. What a guy!

Charles Campbell
Kampala

Military maths



* SIR - An additional factor to Neil Johnson's interesting formula attempting to map out the frequency of insurgent attacks ("Cry havoc! And let slip the maths of war", April 2nd) would be the volume of "*forces en presence*" in a conflict. The ability to cover the field with sufficient manpower is a major tenet of counter-insurgency, yet most practitioners of this challenging form of warfare would agree that the size of an occupying contingent has a direct impact on the number and frequency of attacks by insurgents. Expeditionary soldiers-with their lack of knowledge of local issues and who enter conflicts that have larger implications than their own agenda-exacerbate tensions and disrupt the local equilibrium. This was seen in parts of Afghanistan where the mere presence of foreign soldiers ignited conflicts in previously peaceful areas.

Romain Poirot-Lellig
Lecturer, Conflict management
Institut d'Etudes Politiques de Paris
Paris

Asset management

SIR - You smelt "a whiff of hypocrisy" in Warren Buffett's "tut-tutting over Wall Street's book-cooking" partly because Berkshire Hathaway "was recently forced to write down holdings that regulators deemed overvalued" ("Unexpected loss", April 2nd). But this implies that Berkshire recorded these assets at a value which was unrealistic, which is not the case.

Berkshire marked the assets to a very liquid, universally recognised market price at every quarter. Regulators have not questioned their current market value. The only disagreement with the Securities and Exchange Commission was whether changes in short-term market value should be recorded as a loss under the current quarter's income line or as a reduction in the line for "other comprehensive income". In either case, the change is entirely marked to market and recognised in full each quarter.

Jim McElhiney
Monaco

* SIR - You mentioned that Warren Buffett had damned derivatives as dangerous. Mr Buffett has discussed derivatives in exhaustive detail in his letters to shareholders and in other public statements. Derivatives are just bets, and he has made it clear that, as we all know, there are good bets and bad bets. He essentially gambles on the long-term rise of the S&P 500 index, ie, on the future growth of the American economy. Most (though not all) would say those are good bets. But in Mr Buffett's case it doesn't matter, because Berkshire Hathaway can easily cover the bet even if it is bad: the company has a huge capital cushion. When Mr Buffett spoke of other derivatives as "weapons of mass destruction", he was speaking of

firms with too much leverage that had essentially bet the farm. Quite a difference. Thus, to say that one does not like rotten tomatoes is not to say that one does not like tomatoes.

John D. Alkire
Seattle

For the against party

SIR - When you described the German Greens as the "against party" ("A Greener future?", April 2nd) it proved what a serious party they have become. The red-green coalition of 1998-2005 not only had one of the best foreign ministers this country has seen, the Greens' Joschka Fischer, but it was responsible for the most comprehensive labour-market reform in recent history. The Greens are the closest thing we have to a truly liberal party.

All you reiterated was the propaganda of the Free Democrats, and, until recently, the Christian Democrats. The former pretend to be liberals, but have at times flirted with the right-wing populist, xenophobic flavour of the Freedom Party in Austria, while promoting anything but liberal ideas. The latter slammed the door in the face of the Greens last year. Angela Merkel called talk of a possible coalition with the Greens a phantasm in order to prop up her ailing government. She also called the recent union with the Free Democrats a "dream coalition" she and her party had always wanted. It has proved to be internally ineffective, while externally most damaging to Germany's reputation.

Dirk O. Evenson
Berlin

Little Southern comfort



* SIR - In your article on the American civil war ("Finally Passing", April 2nd), you made a reasonable case that Southern anger over the civil war has dissipated. But I'm afraid a substantial minority are unlikely to show up at periodic celebrations. Resentment and anger is not past for too many Southerners. It is apparent now in federal government politics. Hatred of the federal government has never been stronger, and it is concentrated in the South. Nor has the amount of money pouring in from rich Southerners ever been greater. The oil, cattle and farming wealth in the South remains completely committed to a return to pre-civil war days, with a monied ruling class and states' rights. Black Americans are free and will remain so, but the relentless demand for the power of business over society, and the power of states to run their own affairs has not dissipated in the South, and for them Jefferson Davis may be dead, but the past is not.

Ronald Schaeffer
Lewes, Delaware

Fight wars with words

SIR - I was disappointed that you singled out the Floridian Christians who burned the Koran as "bigots", while using no such denunciative appellation for the radicals in Afghanistan who responded with violence and murder (The world this week, April 9th). Symbolic speech is often objectionable, but non-violent conduct is protected by principles of free speech and should be met with similar non-violent action, not with murder. As reprehensible as burning the Koran is, using such symbolic speech to justify mob violence is far worse.

John Hill
Silver Spring, Maryland

Meddling in Russia

SIR - In response to your article on BP in Russia ("Dudley do-wrong", April 2nd), Vladimir Putin has consolidated control through his army of oligarchs who in turn command their legions; well educated, well compensated and immersed in the velvet of privilege in an otherwise harsh land. All know their master, and have ample example of what it means to stray off the reservation, like Mikhail Khodorkovsky and Platon Lebedev.

Bob Dudley doesn't stand a chance. One man and one company, flashing sabres against the mobilised, economic Cossacks is more the domain of Alfred, Lord Tennyson, than Harvard Business School, and the results should be the same as a faintly similar effort some years ago. But, "O the wild charge they made."

Craig Yeack
Dublin, Ohio



SIR - Having grown up in Russia, I am sure that Mr Putin and Dmitry Medvedev are simply playing the "good cop, bad cop" game again ("The Putin v Medvedev tandem", April 9th). Or, to be precise, "bad cop, very bad cop".

Mark Gurfinkel
Jersey City, New Jersey

* Letter appears online only

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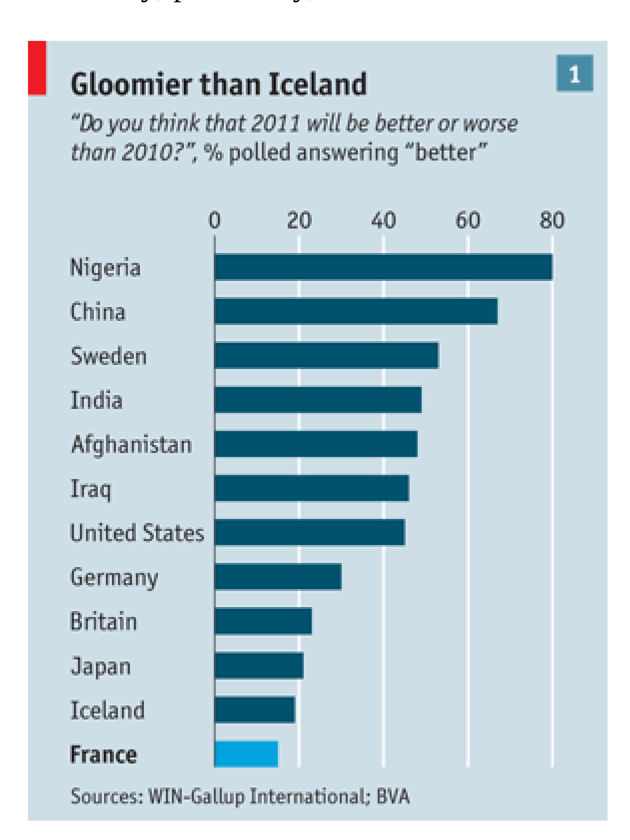
Reforming gloomy France

The French are feeling morose about their future. The thrusting energy of their digital entrepreneurs suggests they should not



The start of a revolution, argues Jacques-Antoine Granjon

BEHIND the bustling terrace cafes and bright municipal blooms of springtime, France today is not a happy place. Tense, fearful and beset by self-doubt, the French seem in a state of defiant hostility: towards their president, political parties, Islam, immigrants, the euro, globalisation, business bosses and more. Such is France's despondency that its people face "burnout", said the national ombudsman recently; previously, he had described the nation as "psychologically exhausted".



It is a sign of French disgruntlement that the publishing sensation of the past six months has been "Indignez-vous!" ("Time for Outrage!"), a pamphlet by a 93-year-old urging his fellow countrymen to revolt. Indeed, the French currently rank among the world's most pessimistic. Only 15% told a global poll that they expect things to get better in 2011, a far smaller percentage than of Germans or even Afghans and Iraqis (see chart 1).

French malaise shows up in various forms. President Nicolas Sarkozy's popularity has sunk to a record low, just 22% last month, according to TNS Sofres, a polling group. This is a level never matched by either Francois Mitterrand or Valery Giscard d'Estaing, two previous presidents, and beaten only by Jacques Chirac towards the end of his second term. Fully three-quarters of those polled this month said that they did not want Mr Sarkozy to be re-elected president next year.

The politician who ran up the steps of the Elysee Palace in 2007 in jogging shorts, promising to modernise France, has become a damaged brand, weakened by his own errors of judgment and style, as well as those of so many of his ministers. Even Mr Sarkozy's brave attempt to restore French diplomatic credibility with muscular military action in Libya and Cote d'Ivoire, although popular, seems unlikely to improve his standing at home.

If French gloom were confined to just a personal rejection of Mr Sarkozy, the opposition Socialist Party would be enjoying a revival. But French disaffection reaches across the political divide. The Socialists are seen as divided and out of touch. Almost alone, the far-right National Front, under its savvy new leader, Marine Le Pen, is thriving, largely because it is grumpy about everything too. It complains about immigration and Islam, in a country with Europe's biggest Muslim minority, and about the mainstream political parties, both on the left and the right. Repeated polls suggest that Ms Le Pen could defeat Mr Sarkozy to take his place in the 2012 presidential run-off, just as her father, Jean-Marie, eliminated the Socialist candidate, Lionel Jospin, in 2002.

The French seem simply to doubt their politicians' ability to do much to improve anything. The economy is emerging only slowly from the recession, with GDP growth this year forecast to reach 1.7%, compared with 2.5% in Germany. Joblessness, at 9.6%, is high, and even more so for the under-25s. Although the government has embarked on fiscal consolidation, public finances remain under strain, with a deficit of 7.7% last year. Ordinary working people keep hearing that their high-tax, high-spending model provides them with one of the world's most generous social systems; yet even the middle class feels a squeeze at the end of each month.

The upshot is a fatalistic France that seems to have set its sights on little better than controlled decline: a middling economic power, whose people cling to their social model and curse globalisation, while failing to get to grips with either. Considering what they hear from politicians, this attitude is perhaps not surprising. The Socialist Party promises, with a straight face, to restore retirement at 60 (the age was recently raised to 62) and urges greater European protectionism as a response to globalisation. Ms Le Pen vows to withdraw France from the euro and put back border controls. Mr Sarkozy's political day-trip of choice is to a metal-bashing factory-although only 13% of jobs are in industry-where he surrounds himself with workers in overalls and hard hats, telling them they need to be protected from globalisation and other ills.

One conclusion from all this is that France and its politicians are irredeemably conservative. Indeed, France often seems to be in semi-permanent revolt, arms crossed and heels dug in against change. Only last autumn, unions and oil workers led weeks of strikes and blockades in protest at Mr Sarkozy's modest raising of the minimum retirement age. On a single day, up to 3.5m protesters took to the streets; petrol pumps ran dry across the country. "Why France is impossible to reform", lamented *L'Express*, a news-magazine.

But if the French really are so allergic to change, how come the pension reform not only went through but has now been accepted, even forgotten? Only weeks after the new law reached the statute books in November, the matter did not rank among the nation's top ten subjects of conversation, according to a poll for *Paris-Match*. France seemed to go through a painful spasm of rebellion, then to shrug it all off and resume business as usual. "We were able to demonstrate to the French people that there are things that a government just has to do," argues Christine Lagarde, France's finance minister. "For once, the government did not give in to the street."

Various factors explain how pension reform passed: the modest ambition of the plan itself; a sense of crisis prompted by the Greek bail-out; the dwindling power of unions even in France to force retreat. As Guy Groux, an industrial-relations specialist at Sciences-Po university, points out, the last time French street protests forced a government to abandon a reform was five years ago, when Dominique de Villepin, then prime minister, tried to bring in a more flexible labour contract for the young. Protests in France are in part a theatrical ritual: a festive occasion for venting frustrations and making a point.

The silent majority

Another reason, though, is that there is a second side to France. By holding firm, and ignoring charges of political deafness, Mr Sarkozy appealed over the heads of those on the streets to the silent majority. He took a bet that this invisible France would quietly back change, and prevail over the rest. For, in reality, two halves of the country co-exist. One half, mostly, but not only, in the public-sector, is led by hard-talking trade unionists promising to prolong benefits for privileged "insiders" and entrench rigid labour laws. The other half, mostly found in the more dynamic, private sector, is plugged into global markets and just as despairing of its strike-happy fellow countrymen as anybody else.

This is the France that does not go on strike, that defies disruptions to struggle into work, and whose voice is seldom heard. It is found among the 92% of workers who do not belong to a union. It is the small traders and artisans who are up before

dawn scrubbing their shop-front windows. It is the workforce whose productivity per hour worked is higher than that in Germany and Britain, and which helped to make France the world's third highest destination for foreign direct investment in 2010. It is the third of private-sector employees who work for a foreign firm. It is France's leading global companies-Vivendi, L'Oreal, Michelin, LVMH-which busily reap the benefits of globalisation, a force that the French say they deplore.

This voiceless France, more adaptable and forward-looking, seldom permeates the national conversation. Yet a glance at the France behind the headlines hints at a picture that is a lot less glum. Shops are full, markets busy and consumer spending is buoyant. Property prices are up. The French have snapped up the iPad and 20m, or nearly a third of the population, are on Facebook. The French may moan about their country, their bureaucrats and their politicians, but they seem happy with their individual situation. Though only 17% of young people told one recent poll that their country's future was promising, a massive 83% said that they were satisfied with their own lives.

Thanks to a decent diet and health system, the French, in particular French women, live longer than many others in Europe. Most strikingly, the French birth rate has risen to just over two babies per woman. By some estimates, France's population will overtake Germany's by 2037. The French, it seems, are persuaded by the ambient gloom that their country is doomed-yet even their own behaviour suggests that they think it may have a future.

Start me up

At a converted 19th-century warehouse on the Paris fringes a few months ago, French revolutionaries gathered to plot the future. They met, however, not to take to the streets but to take on the virtual world, at one of Europe's biggest tech events. The shirts were tieless, the iPads abundant and the language a blend of French and West Coast. There were Facebook workshops, and talks on such themes as "Teen Entrepreneurs can Change the World". Glass jars filled with lime-green and crimson jelly bears were perched on the buffet tables and talent contests for start-up entrepreneurs took place on the stage. "France isn't just about strikes," argues Loic Le Meur, the event's organiser. "There is a whole network of entrepreneurs who are French, but also plugged into the rest of the world."

France's start-up scene may be relatively new, but a fresh generation of faces has begun to graduate into the big league. They include such figures as Pierre Kosciusko-Morizet of Priceminister, Marc Simoncini of Meetic, and Xavier Niel of Iliad, who launched Free, a telecoms firm, from nothing to take on the established giants. Three entrepreneurs now plan to launch an internet business school in France this autumn. Among them is Jacques-Antoine Granjon, the founder of vente-privee.com, a private online shopping club. His firm employs over 1,300 staff, and turnover in 2010 jumped 15% to a handy euro969m ($1.3m), mostly from sales in France.

"We are only at the beginning of the revolution," declares Mr Granjon, rolling off his plans to expand across Europe. He runs the firm from a converted printing works on the outer northern edge of the Paris *peripherique*, where staff are offered yoga classes, and the open industrial spaces drip with avant-garde art installations. "The French are very entrepreneurial, very creative," argues Mr Granjon. "What we are doing gives a signal to young people that everything is possible."

In recent years, the government has cut red-tape for new businesses, and boosted the tax credit for investment in research and innovation. Just setting up a company in France used to involve a battle of wills with bureaucracy. Now the time it takes to register a new business has fallen from 41 days in 2004, according to the OECD, to just seven in 2010-lower than it is in Britain or Germany. Thanks to a simplified procedure, a record 622,000 entrepreneurs started new businesses in France last year, twice as many as in 2007. A recent advertisement for Rouen Business School, in Normandy, captures the innovative mood: "The ten most sought-after jobs in 2010 did not exist in 2004."

By 2015, according to a study by McKinsey, a consultancy, France's digital economy could nearly double in value and create 450,000 new jobs. The appeal of the technology scene seems to be spreading. When a poll asked French teenagers which company they would most like to work for, the top three responses were not, as in the past, French state enterprises, but Apple, Microsoft and Google.

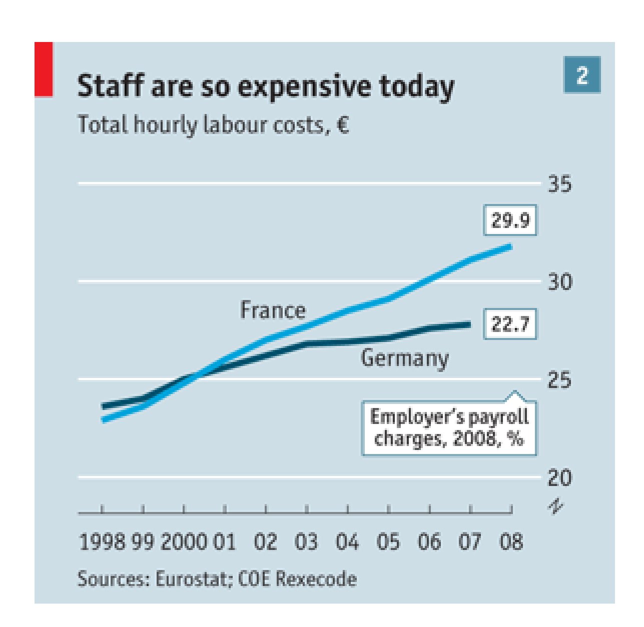
This is a world that has little time for the preoccupations that blocked French roads and dried up petrol pumps. "I'm not against what they were doing, it's just not relevant to me," says Olivier Desmoulin, the 28-year-old founder of SuperMarmite, a start-up based on sharing home-cooked meals. It is the mindset of a different generation. Stephane Distinguin, another entrepreneur, founded a start-up, faberNovel; both his parents were civil servants."The politicians don't make it easy", he says, "but I don't subscribe to the view that you can't do anything in France."

Plainly, not every Frenchman is a budding internet entrepreneur. There is plenty of rigid conservatism, within France's big private firms-and certainly among those early-rising artisans. The French still express particular hostility to capitalism. But the outlook of this conservative crowd chimes with broader French public opinion in surprising ways. In a recent study on lifestyles by the Foundation for Political Innovation, a think-tank, 64% said they had no confidence in unions, and 53% regarded international trade as a good thing for France. Fully 52% defined themselves as middle class, with aspirational values to match. Of the top four values ranked by respondents, three were "freedom", "responsibility" and "effort".

Even during the pension-reform strikes, when polls seemed to show wholehearted support for the protesters, attitudes were mixed. Pascal Perrineau, a political scientist at Sciences-Po university, makes the point that the French almost always back strikes, particularly at the start. A majority supported those against pension reform in 1995, which crippled the country and forced the rigid government of the day to back down. An even bigger majority was initially behind the 2010 pension protests. Yet, as the weeks went by, such support proved thin. Between September and November, it dropped from 70% to 47%.

The French seem simultaneously to hold two conflicting views. When asked if they backed the strikes, a majority said yes. When asked in the same poll whether raising the retirement age was "responsible towards future generations", 70% also said yes. In other words, the French temperamentally liked the idea of protest, not least as a way of snubbing Mr Sarkozy. But, at the same time, they knew that raising the retirement age to 62, when the Greeks were being told to stay at their desks till 65, was the reasonable thing to do. "Public opinion", comments Ms Lagarde, "is much more mature than people think."

How much further could France go in modernising its social rules, so as to preserve what works best, while neither busting the state nor cramping growth? This is a pre-election year, and although Mr Sarkozy said that he would press on with reform, he is deeply unpopular and his prospects of re-election are in the balance. Already, he has abandoned one bold idea, of abolishing the anachronistic wealth tax, preferring merely to raise the minimum asset base at which the yearly tax kicks in, from euro790,000 to euro1.3m. The government will have to keep trimming spending, in order to get its deficit down to 3% by 2013, and to keep bond markets at bay. But it looks increasingly unlikely that Mr Sarkozy will launch any controversial economic reform ahead of the 2012 election.



The trouble is that France cannot afford to be complacent. Despite its failure to balance the government budget since the 1970s, it is not Greece or Ireland or Portugal. But nor is it Germany. For years, the French have comforted themselves with the illusion that their economy was more or less doing as well as, if not better than, their neighbour's across the Rhine. During the recession, thanks to a strong state and welfare system, its economy was indeed less battered than Germany's. But the recovery has exposed France's competitiveness problem. Over the past ten years, Germany's share of exports within the euro-zone has grown, while France's has shrunk. In 2000 French labour costs were lower than those in Germany; now they are 10% higher (see chart 2).

Le mal francais

A big part of the gap can be blamed on France's heavy payroll taxes. These make employers' total wage costs 41% higher in France than in Germany, according to Medef, the French bosses' federation. They are one reason why French firms

hesitate to grow, let alone to seek to export, and are reluctant to hire staff on permanent contracts. The average French firm employs just 14 people, according to COE Rexecode, a French research group, compared with 35 in Germany. The upshot is high structural unemployment in France, an over-reliance on temporary work, and a two-tier labour market that over-protects insiders and under-protects the rest. The young, who have become serial collectors of short-term contracts, pay the price by lacking the security that the insiders enjoy.

Such concerns ought to be at the heart of any debate today about French economic reform, and yet they are not. No politician dares to contemplate the spending cuts that would be needed in order to bring French social charges down to competitive levels. Nor does anybody seem ready to take on other blockages, such as the lobbies of taxi-drivers, pharmacies or notaries that keep such professions organised in their favour, rather than that of the consumer. Mr Sarkozy has achieved some useful reforms during his term, including pensions, the decentralisation of universities and some loosening of the 35-hour working week. But these are only a start.



The start of a revolution, argues Jacques-Antoine Granjon

With pension reform, Mr Sarkozy showed that it is possible to lean on the silent majority in order to defy conservatism and stir up France. At his best, he is one of the few politicians bold enough to argue the case for reforming the social model in order to safeguard it. But even he no longer seems ready to talk of France in a way that portrays its people, not as victims of outside forces, but as a source of entrepreneurial energy who could contribute to the creation of the wealth needed to sustain France's social model. This France exists, and wants the government to do little more than get off its back.

Over 30 years ago, in "Le Mal Francais", Alain Peyrefitte, a Gaullist minister and thinker, wrote that "the French are as attached to the status quo as they are discontented with it." He put this tension down to an over-bureaucratic system that crushes initiative and encourages passivity, and called for a shift in mentalities. A third of a century later, it is above all French politicians who have yet to change their outlook. French *morosite* and the politics of victimisation are overdone. France is a stronger, more resourceful place than its people seem to think. It is certainly not in as dire a condition as the euro-zone periphery. But it would be a sad reflection of shrivelled ambitions if that were the only standard it set for itself.

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Deepwater Horizon, one year later

The shores of recovery

Much remains to be done, but signs of revival are everywhere

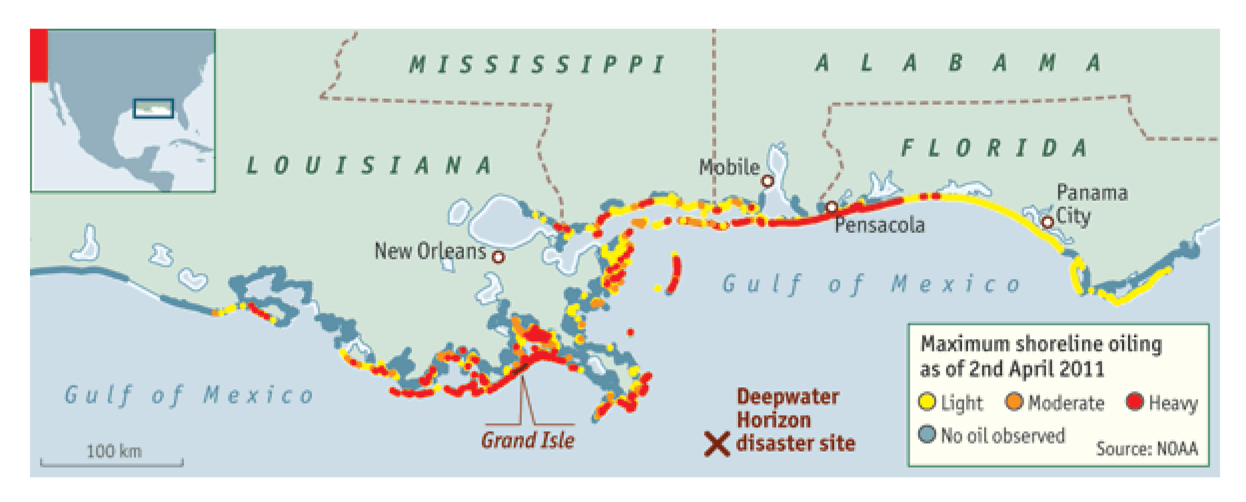


THE hand-scrawled signs advertise houses for sale, boats for sale, garage sales. There are fresh strawberries, fresh eggs, fresh shrimp and crayfish, either fresh or boiled. Other families are selling heifers, chicks and rabbits. These are the traditional products of the small towns in south Louisiana, sold along narrow roads that wend their way through land so low it seems to sag into the water. But there is something new on offer to workers totting up their recent losses: signs are popping up saying "Spill Claims Denied?"

It has been a year since the blowout at Deepwater Horizon, an oil rig in the Gulf of Mexico some 50 miles from south-east Louisiana. Eleven workers were killed and the platform burned for two days before it sank to the sea floor, 5,000 feet below. Oil gushed from the well for 87 days. Workers at the rig tried to contain it, while responders scrambled to corral it, burn it or disperse it. By the time the well was capped, on July 15th, the government estimates that nearly 5m barrels of oil had escaped, making the disaster the largest accidental offshore oil spill in history. Vast tracts of fisheries were closed. People who drew their livings from the waters, by fishing or tourism, feared devastation.

A year on, it is too early for a full account of the long-term impact. The Natural Resource Damage Assessment, a process mandated for oil spills, is still in its injury-assessment and restoration-planning phase. Detailed research into what happened and what it means awaits the full flowering of the Gulf Research Initiative, independently managed but to be paid for by BP to the tune of $500m over ten years. So far $40m of this has been dispensed, and requests for proposals on how to spend a fair chunk of the rest may be announced as soon as the end of April.

But though much remains to be done, many experts are willing to hazard a certain amount of relief. "Oh, it's a lot better than what we expected," says Ken Litzenberger, the project manager for the Southeast Louisiana National Wildlife Refuge. "When you have that much oil spewing for that long-everyone was predicting doomsday." Thomas Shirley of Texas A&M University says that favourable currents, an absence of storms that would have driven oil deeper into the fragile marshes and the remarkable appetite for hydrocarbons displayed by the Gulf's bacteria have saved a lot of the shoreline.



Add to that good fortune the fact that some of the grimmest prospects held out last year were simply exaggerated, and that others were fended off by an aggressive response that involved nearly 50,000 people from state, federal, and local agencies. One technological innovation for cleaning the marshes has a grasping claw to pull up mats of dead marsh grass and a squeegee to scrape the oil from the surface underneath. Another works like a giant set of hedge clippers. Some workers were stationed in the marshes, where they used bangers to scare birds away from oil-slicked sites. Others built chevrons of plastic booms to block the oil from coming ashore. All these efforts will eventually be paid for by BP, the oil company which was operating Deepwater Horizon and is financially responsible for the damages.

Offshore workers and responders captured or dispersed more than 2m barrels of oil, according to the most recent estimate from the National Oceanic and Atmospheric Administration (NOAA): about 40% of the total spill, according to government estimates. (BP has indicated that it may contest those estimates at some point, but has not yet released an alternative accounting.) Roughly 17% of the government total was recovered at the site; smaller shares were burned or skimmed off at the surface. Natural and chemically accelerated dispersion into small droplets has accounted for about 30% of the total. Nearly a quarter has evaporated-that hot Gulf sun has its uses-or dissolved.

According to the NOAA, about a quarter of the oil remains unaccounted for. Some of it became entrained with sand and the sediment coalesced into mats that will stay submerged until they are weathered by the water or spotted by the Coast Guard. Other bits of it are being coughed up as tar balls.

What it cost

The disaster is still having tangible effects. The last affected fisheries did not reopen until April 19th. On the beach at Grand Isle, Dan Lauer, a Coast Guard commander and the deputy incident commander for the joint effort, says that the service will clean up the symptoms for as long as it takes. "It's the cost of doing business in an active area," he says, watching as trucks rake the shoreline.

Others are concerned about consequences far beyond the reach of rakes. Some scientific studies report a lot of oil still in the deep sea, possibly poisoning deepwater corals and other creatures. Damage to the deeps may have some effect on food chains elsewhere in the ocean that matter more to fishermen-most deepwater species visit the shallows in their larval form, and many of the larvae get eaten- but it is by its nature less noticeable, and emotive, than seabirds or turtles drenched in similar amounts of oil.

The ability of some ecosystems to clean themselves up can also cause knock-on problems. When bacteria eat up oil-which they have been doing at the Gulf's oily seeps for millions of years-they use up oxygen, too. Give them a huge oil blowout, and they can use up enough oxygen to create anoxic "dead zones" that imperil fish and other sea creatures. The NOAA is monitoring these zones; it is easier to test for low oxygen levels than to find the oil plumes far below the surface.

Some human interventions also caused collateral damage. "As part of the response you're going to have to injure the environment," says Gary Petrae, the scientific support co-ordinator for NOAA. Chemical dispersants helped break up the oil, but some local residents and doctors are concerned about the long-term health effects of exposure to the dispersants themselves. Then there are the oyster beds. To flush the oil away from the coastline all constraints on the flow of the Mississippi were lifted, and a tongue of fresh water flowed out into the Gulf: good for the marshes, bad for the oysters, which need their salt. BP says it will not pay to reseed the oyster beds, as it never agreed to the freshwater flushing, and the oysters would have survived the oil.

It is paying for a lot else, though. Although it is hard to tot up the company's ultimate liabilities while the assessments are still under way, it incurred $13.6 billion in response costs in 2010 and has agreed to put $20 billion in an escrow fund, to pay damages to individual claimants for business losses and to state and local governments for clean-up efforts. According to ProPublica, a non-profit corporation that sponsors investigative reporting, a new breed of "spillionaires" has emerged in the Gulf, most of them companies subcontracted to help with the clean-up, who charged BP premium rates for any land rental or piece of equipment. But they are vastly outnumbered by those who are making claims against BP for business losses. These losses must be carefully documented-both to prove that they occurred, and that they were caused by the spill rather than by the recession, or anything else. "On any individual claim, we don't answer to BP. We decide," says Ken Feinberg, who runs the Gulf Coast Claims Facility. On the matter of oysters, he says the fishermen will be paid as long as they can document their losses from the spill. As of this week, the fund had paid out $4 billion in claims to 200,000 people.

Some of these victims are relatively sanguine. The Gulf coast's economic ecosystem is built around energy, seafood and tourism, and for at least two the prospects are not bad (see article). Fish stocks have been invigorated by the fishery closures, and the moratorium on oil-drilling in the area has been lifted. "If the people in the oilfield go to work, then they

can buy the shrimp, so they're helping us," says Jay Riley, a shrimp fisherman from Plaquemines Parish. He says that the spill put him out of work for months, and he received about $41,000 in damages. It was a fair payment, in his view.

Tourism officials are less sanguine. All those doomsday predictions helped galvanise the response, and that has helped the Gulf coast recover. But they may also have led to a lasting perception that the shore has been ruined. And it will take more than home-made billboards on bayou byways to get the cheerier message out.

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Fishing on the Gulf coast

You've had a pleasant run

Local seafood faces bigger threats than oil and dispersants



Nippy, but safe

THE huge Gulf-coast oyster presents a challenge to the polite diner. Eating one properly takes three steps: first, forget your table manners. Second, cup the opened half in your hand, lean down as though to kiss the oyster, and, when in striking distance, inhale sharply and suck in the beast, chomping and slurping merrily. Repeat as often as possible.

That last part is proving difficult for consumers. It should not. First, the Gulf is full of seafood. Although closures last summer brought landings of shrimp-which account for more than half of the over $661.4m in dockside value from Gulf-fished seafood in 2008-down from their three-year averages in four of the five states that fish the coast, fisheries in the Gulf of Mexico are resilient. The closures stimulated a boom in shrimp and red snapper later. Shrimp landings in November and December 2010 exceeded the three-year average.

The fish is also safe, although consumers are doubtful. A survey in December, commissioned by the Louisiana Seafood Promotion and Marketing Board, found that nearly three-quarters of American consumers were still worried about the safety of seafood from the Gulf coast, and almost a quarter were eating eat less seafood than in the past. Those numbers

are down from last summer, when more than 90% of customers surveyed were concerned about seafood safety and 60% said they were eating less of it, but they are higher than they should be.

Steve Wilson, the chief quality officer for the National Oceanic and Atmospheric Administration's seafood inspection programme, said his agency has carried out around 4,000 sensory tests and between 6,000-7,000 chemical tests on Gulf seafood and found that the fish and shellfish brought to market are safe, testing well below the safety threshold for oil and dispersants. Aside from a tiny section immediately around the wellhead, the whole Gulf is open for fishing.

But while Gulf fish may be fine, its fishermen are not. Dockside shrimp prices have declined steadily since 2000. Almost 70% of the seafood and 90% of the shrimp consumed in the United States is imported. In Louisiana, shrimp-gear licence sales fell from 44,000 in 1986 to 14,500 in 2008. Chris Nelson of Bon Secour Fisheries, a seafood processor and distributor, said the firm's revenue is around half what it was in 1999. The number of boats has fallen too: they buy from six today, whereas 30 years ago they bought from around 80. Not all of this is caused by imports: rising fuel costs, environmental regulations and catch quotas have all taken their toll. Small wonder that some fishermen have used BP's payout to retire, while others are staying off the water for fear it may affect their compensation claims.

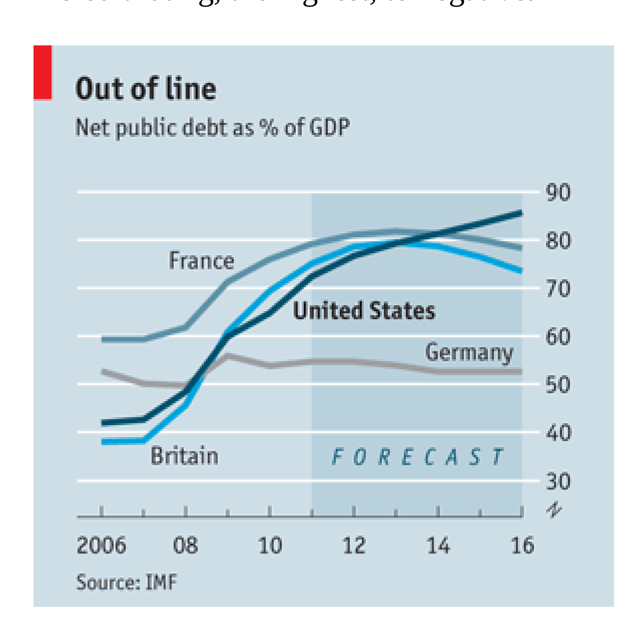
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The credit-rating outlook

A warning shot

S&P's bombshell means more politically than economically

SCEPTICS have wondered how long America could use its control of the world's reserve currency as an excuse to rack up huge debts. Now they may have their answer. On April 18th Standard & Poor's (S&P), a credit-rating agency, said it had lowered the outlook for America's AAA credit rating, the highest, to negative.



Many rich countries have seen their debts and deficits balloon in recent years. According to S&P's own calculations, America's net debt of all levels of government, at 75% of GDP, is in the same range as the net debts of Germany, France and Britain, all rated AAA (see chart). But those countries, S&P frets, "are all now doing more about it" than America is. The agency had briefly put Britain's rating on negative outlook, but lifted it when the coalition government swung towards austerity. The prospects of America following suit, says S&P, are hobbled by the fact that Republicans and Democrats cannot agree on how to tackle the deficit.

Although stocks fell and credit-default swaps on American debt widened when the news broke, the bond market remained oddly unruffled: yields ended lower on the day. For all the attention it drew, S&P's move will have little effect on

America's ability to borrow. As their downgrades to subprime securities during the financial crisis showed, rating agencies usually act long after the economic fundamentals have become obvious.

Treasury investors care less about what S&P thinks than about inflation, growth, monetary policy and the relative appeal of other assets. Bond yields have edged lower lately because growth has slowed to a crawl (see article). Japan lost its AAA rating in 2009 because of a world-leading debt burden. But because of deflation, its bond yields remain at rock-bottom levels. America relies more on foreigners to buy its debt than Japan does, but many of those foreigners are official buyers such as central banks with little alternative.

S&P puts the odds of an actual downgrade at one in three. Moody's Investors Service and Fitch, the two other leading agencies, have left the rating alone. If America actually loses its AAA, some investors who are obliged to own only AAA-rated paper might have to sell. But the sovereign wealth funds, foreign governments and central banks who are the biggest holders of Treasuries invest in a broad range of assets of varying riskiness, notes Dino Kos of Hamiltonian Associates, a firm of economic consultants. China's central bank, for example, has been buying Spanish government bonds, rated AA.

S&P has chosen an odd moment to blame the lack of political action on the long-term deficit for making its move. The odds of such action are now better than they have been for a while, a point Moody's made the same day as it affirmed its AAA rating. On April 15th the Republican-controlled House of Representatives adopted a budget plan that enacts sweeping cuts to Medicare, Medicaid and other government programmes. Not one Democrat voted for it; but at the same time Barack Obama was hitting the road to sell an alternative plan that relies more heavily on tax increases to achieve somewhat less deficit reduction. Meanwhile, a bipartisan "Gang of Six" senators are labouring towards their own deficit-reduction package.

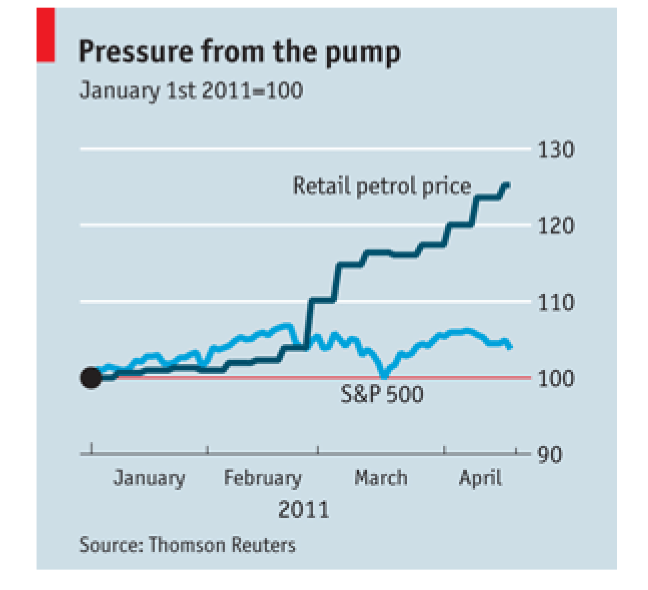
Between mid-May and early June the Treasury will bump up against the legal limit on how much debt it may issue. Failure to raise the limit would force it to renege on payments such as benefits to the elderly and, potentially, interest on the debt. Republicans say they will not vote for an increase without agreement on spending cuts. Mr Obama seems to hope they will settle for a broad agreement on targets and triggers that would automatically cut spending and raise taxes if the targets are not met. That would leave the tougher details until after the 2012 presidential election.

For the moment both sides continue to talk tough, but S&P's action has added to the pressure to strike a deal. After two years of being castigated by politicians for their irresponsible mortgage-ratings work, credit raters have turned the tables.

The economy

Revising downwards

Growth takes a knock-from nature, as much as anything



THIS was supposed to be the year when a strong, durable American recovery finally kicked in. A volatile 2010 closed with a respectable fourth-quarter growth performance. The economy expanded at a 3.1% annualised rate from October to December, with more acceleration expected. Early indicators in the new year looked impressive, too. Industrial production grew vigorously during the first quarter, and the stock-market rose over 4%.

Most encouraging of all, labour markets have at last grown steadily enough for long enough to start to bring down the stubborn unemployment rate. Private-sector employers added 564,000 workers from January to March. In February the unemployment rate fell below 9% for the first time in nearly two years. At the end of January Macroeconomic Advisers, a consultancy, forecast an annualised first-quarter growth rate of 4.1%.

Now, however, a much gloomier view prevails, accompanied by a wave of revisions to the figures. Macroeconomic Advisers expects an annualised first-quarter growth figure of just 1.5%. Economists at JPMorgan think the growth rate will be 1.4%. Others whisper that growth below 1% is not out of the question. The advance GDP estimate will be released on April 28th, and everyone expects a dismal figure.

There are many reasons for it. The year's early economic energy was dampened by a spell of nasty winter weather, which depressed consumer spending and January employment growth. Winter storms cut perhaps half a percentage point off growth from January to March, according to some estimates. Oil prices, which rose steadily as growth picked up in the fourth quarter, went back above $100 a barrel when unrest in Libya cast uncertainty over already tight global supplies. The average retail price of petrol in America rose 53 cents, or about 17%, during the first quarter of the year.

Dearer oil may have cost the economy another half a percentage point in output. The drumbeat of crisis around the world sounded elsewhere as well. The catastrophic earthquake, tsunami and nuclear disaster in Japan depressed global markets in March, and may have shaved a few tenths of a percentage point off America's growth. Confidence probably suffered from renewed debt-crisis fears in Europe. Perhaps more important, contractionary policy in Europe and emerging Asia chipped away at global demand for American exports. In February, the latest month for which data are available, the trade deficit shrank less than expected.

If GDP growth does come in at around 1.5% for the quarter, it will almost certainly understate the economy's true performance. Many of the drags on first-quarter output are transitory. As the year proceeds, firms will recover some of the ground lost to snowstorms and falling confidence from crises in North Africa and Japan. But the gloomier figures are a reminder, if any were needed, that the road to recovery is not a smooth one.

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Tackling recidivism

They all come home

Effective re-entry programmes can keep ex-prisoners out of jail



Hanging it up for good

JEN KWONG NG was released in June after serving 20 years in a prison in upstate New York. Desperate for work, he reconnected with the old "friends" who had got him into trouble in the first place. He had just met them in the park when his phone rang. It was Harlem's Exodus Transitional Community offering him an internship. "I told my boyz", remembers Mr Ng, "I gotta go. I gotta go to work."

Exodus helps ex-prisoners to get back on their feet. The numbers needing help are staggering. One in every 100 American adults is in prison or jail, one in 31 is under correctional supervision-and after their release, most will find themselves back behind bars. According to a new Pew report, 43% of American offenders are returned to state prison within three years of their release. The recidivism rate varies from state to state: 45% in Alaska and just 4.7% in Montana. But of the 301 people who completed the Exodus programme in 2010, only nine went back to prison.

Unless they are offered a good re-entry programme, prospects are bleak for those returning home. Drug and alcohol abuse is the norm, and a quarter of prisoners have mental-health problems. Few have finished high school. Many have bad work histories. And a criminal record reduces the likelihood of employment, by as much as 57% for black applicants.

Most prisoners are released back to their neighbourhoods, but these are often ill equipped to deal with them. East Harlem receives more than its fair share: some 2,200 people are released on parole in Upper Manhattan each year. Within one

seven-block stretch-from East 126th Street to 119th Street, dubbed "corridor for re-entry"-one in 20 men have spent time in prison. Exodus lies in the heart of convict alley, says Julio Medina, its founder.

Newark, New Jersey is even bleaker. A quarter of Newark's 280,000 residents have at some point been "involved" with the criminal-justice system. To reverse this, Cory Booker, the mayor, together with the Manhattan Institute, a think-tank, set up the Office of Re-entry, which focuses on work. Former inmates can walk into City Hall and ask for help in getting a job. Since the programme began in 2008, 60% of those who took part in it have managed to find work. Only 10% have reoffended.

Charles Hynes, Brooklyn's district attorney, also sees jobs as essential. Fed up with putting the same people away time after time, in 1999 he created ComAlert (Community and Law Enforcement Resources Together) to act as a bridge between prison and the community for parolees returning to Brooklyn. "We welcome people home," he says. "And we want to keep them there."

He joined forces with the Doe Fund's "Ready, Willing and Able" programme, which provides jobs, such as street cleaning, for a weekly stipend. Later on, ex-inmates can train in food preparation or pest control. According to a Harvard study, Com Alert parolees are 30% less likely to be re-arrested than parolees who have not been through the programme.

ComAlert also offers drug treatment and counselling. This is crucial. Nearly a third of state and a quarter of federal prisoners commit crimes while under the influence. The Centre for Court Innovation found that re-arrest rates dropped by 64% for those who had completed at least 90 days of court-ordered drug treatment.

In Hawaii, HOPE (Honest Opportunity Probation with Enforcement) also focuses on drug treatment. It deters drug use by insisting on regular drug screenings and threatening short stays in jail. Probationers taking part in HOPE are 55% less likely to be arrested for a new crime. Similar schemes are being piloted or considered in Alaska, California and Alabama.

Over the past 30 years, the emphasis in correction supervision has been on surveillance. As a result, the number of people sent back to prison for parole violations increased seven-fold from 1980 to 2000. In 2009 parole violators accounted for a third of all state prison admissions.

Arizona is one of the states trying to do something about this. People on probation there can earn up to 20 days off supervision for every 30 days they show progress and compliance. Since 2008, the number of probationers returning to prison has fallen by 28% and the number with a new felony conviction by 31%. Had the rate of reoffending remained at 2008 levels, Arizona would have had to spend $35.9m in 2010 and up to $3 billion would have been needed to build new prisons.

The cost to taxpayers is enormous. More than $60 billion each year is spent on prisons and jails. A year's stay at a state prison costs about $45,000-Harvard would be cheaper. State correction spending in America has increased over the past 20 years from $10 billion to more than $50 billion. Almost 90% of voters favour reducing prison time and creating a stronger probation and parole system. The Pew report found that if states could reduce their reoffending rates by 10%, more than $635m could be saved in prison costs. One report estimated that New York would save $3.2m for every 100 people who do not return to prison.

In 2008 George Bush signed the Second Chance Act, which hoped to break the cycle of reoffending and, at the same time, increase public safety and rebuild families (more than half of prisoners are parents). But most of the innovation has been at state and local level. A recent report from the Council of State Governments Justice Centre, which highlighted programmes that were working well, argued that adhering to four principles would greatly help to lower costly recidivism rates.

First, the focus should be on the people most likely to re-offend, since early intervention is crucial. According to the Bureau of Justice Statistics, 30% of all re-arrests occur within the first six months of freedom. Second, programmes should be based on scientific evidence and measurable outcomes. With this in mind, the Urban Institute and John Jay College are working to develop a library to compare re-entry practices, programmes and policies. Third, community supervision must improve. Fourth, ex-prisoners must get support in their own neighbourhoods rather than looking to centrally-based institutions.

The principles are not radical. "But they do work," says Frank Wolf, a Virginia congressman who held congressional hearings about re-entry. That is reassuring, since 95% of people in state prisons will one day return to their communities.

The 2012 primaries

Thrusters v laggards

The high tide of frontloading has passed and now seems to be ebbing



FOR decades Republicans and Democrats alike have bemoaned "frontloading": the unseemly scramble among states to move their presidential primaries or caucuses earlier and earlier in election year, in the hope of exerting greater influence over the national result. As states such as Iowa and New Hampshire, which jealously guard the prerogative of going first, respond in kind, the point at which the nomination tends to be decided has retreated from June to March. For a time it looked as if the 2008 primary season might actually slide backwards into 2007, steeping even the Christmas holidays in election mania. In the end, Iowa went first on January 3rd. But that may have marked frontloading's high tide. Although a few states are still trying to jump in early this time round, a concerted effort by the national leadership of both the Republicans and Democrats, and a desperate squeeze on state budgets, may actually succeed in delaying the primary schedule for once.

Uppity legislators in Michigan and Missouri have introduced bills to advance their primaries. But it is Florida, a habitual offender, which is causing the most fuss by trying to hold its primary in January. This violates rules set by both the Democratic and Republican National Committees, which co-ordinate the nominating process and organise the conventions that make the result official. The two parties have barred January primaries, and want only the four habitual starters-Iowa, New Hampshire, Nevada and South Carolina-to hold their contests in February. All other states are supposed to wait until the first Tuesday in March at the earliest.

The Republicans have tried to give the laggards extra clout by barring states with primaries in March from using a winner-takes-all voting system. Perhaps more compelling will be the penalties for going early: the loss of half of the offending state's votes at the convention, which is due to take place in Tampa, Florida, in August 2012. Also at risk, the RNC says, are perks such as plum seating and accommodation at the convention and extra passes for guests: not trivial things, as state parties use them to butter up big donors.

Nonetheless, Florida's Republicans are undeterred. They control the state legislature, and have so far refused to budge from January 31st. Republican officials in Iowa, New Hampshire and South Carolina are so incensed that they have asked the party to move the convention to a more law-abiding state. But Florida's Republican bigwigs are unconcerned, suggesting (probably rightly) that the party would not dare to snub the voters of a large swing state.

If the RNC can somehow resolve this impasse, points out Josh Putnam, an academic who runs Frontloading HQ, a website which tracks such rows, most other states should fall into line, undoing some of the frontloading of recent years. In fact, several states are now in the process of postponing their primaries. Virginia has already set its date almost a month later than last time; Maryland and Washington, DC are on the verge of delaying by two months or more. Some Republican officials in Texas are toying with a move from March to April.

The biggest proposed change would be in California, the most populous state, where legislation is in train to shift the primary from February to June. This is intended to save $100m by combining the presidential primary with those for other offices. Chris Christie, the Republican icon who is governor of New Jersey, wants to do the same. Washington state may scrap its primary altogether, leaving the parties to organise their own caucuses.

Suspicious minds suggest that states dominated by Democrats are particularly keen to delay their primaries, in an attempt to ensure that conservative states have a lopsided influence over the early part of the race-thus increasing the likelihood of an unelectable firebrand clinching the Republican nomination. But gaming the system does not always work as planned: last time round, the early birds ended up with less clout in the Democratic race, as the battle for the nomination dragged on through every last primary. At any rate, Republican officials do not sound too worried-although their main goal may be to preserve a primary-free Christmas.

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Lexington

Trump this

Just when you thought American politics could not become more bizarre



IN AMERICAN politics, as at the theatre, it can help to suspend your disbelief. That helps you to entertain even the most improbable of possibilities, such as the possibility that Donald Trump, TV showman and property billionaire, really intends to seek, and may actually win, the presidency of the United States. There is, certainly, no questioning the putative candidate's own gargantuan self-belief. In recent weeks he has left interviewers slack-jawed with amazement as he throws out his thoughts on how he would behave as president. In Libya, for example, he would have intervened only if America could keep its oil afterwards. "In the old days," he reminisced, "when you have a war and you win, that nation is yours."

You think such a man could not be president? Stifle that disbelief! An NBC News/*Wall Street Journal* poll at the beginning of this month suggested otherwise. When Republican and Republican-leaning primary voters were asked whom

they would favour as a presidential nominee, Mr Trump scored 17%, sharing second place with Mike Huckabee, ahead of Sarah Palin and not impossibly far behind Mitt Romney, the front-runner, who was favoured by 21%. Since then his numbers have risen. A poll published on April 14th by Public Policy Polling put Mr Trump in the lead, with 26% to Mr Huckabee's 17%.

Born in the USA, if nothing else

Like most of the Republican field, Mr Trump has not yet confirmed that he is a candidate. He says he may signal his announcement in the live finale of his reality-TV show, "Celebrity Apprentice", which airs on May 22nd. But why shouldn't he run? True, he claims to be happy and successful enough already ("I have fairly but intelligently won many billions of dollars"), and would far prefer to stand back if another "fantastic" candidate hove into view. Sad to say, none has done so yet. And America, after all, needs saving. Under its present management, laments Mr Trump ("our current president came out of nowhere"), it is sorely disrespected. It has become an international "whipping post" and "the laughing stock of the world", jigged around by currency-manipulating Chinese and price-manipulating oil producers. When he is president, "We'll be taking in hundreds of billions of dollars from other countries that are screwing us."

Mr Trump has another big thing going for him. He was born in the United States, and he has the birth certificate to prove it, having paid New York the $38 required to have it sent to him. Until recently he thought that Barack Obama was born in America too, but now he is not so sure. Mr Trump has sent a team of investigators to Hawaii to look into the issue. But, in the meantime, he is positive that Mr Obama's first book, "Dreams From My Father", was written by Bill Ayers, the Vietnam-era terrorist. That book, after all, was "Ernest Hemingway-plus", whereas the second book Mr Obama claims to have written, "The Audacity of Hope", was plainly written by "someone much more average".

Would it be unfair to attribute Mr Trump's sudden popularity among Republicans to his sudden conversion to "birtherism"? There are certainly votes to be scooped up that way. More than a third of Republican voters do not believe that Mr Obama was born in America, and most conservative politicians are a little more restrained on the subject. A few, such as Michele Bachmann, try to have it both ways, saying on the one hand that they will accept the president's word that he was born in Hawaii, while still implying on the other that there is room for doubt. But most steer clear of this canard for fear of looking foolish. (For the record, nobody needs to rely on Mr Obama's word: the birth certificate has been posted online for all to see, and his birth was announced, at the time, in a local newspaper.)

Here, perhaps, is one secret of Mr Trump's success so far. Though it is obvious that he is no fool, he has no fear of saying foolish things. People are used to it. Indeed, he seems impervious to criticism of almost any kind except of his remarkable hairstyle (or, the unkind aver, his hairpiece). At public meetings or in television interviews he brushes off boos, taunts and evidence with a supreme insouciance. He has little to lose by flirting with politics, and, when you think about it, rather a lot to gain.

No matter how he made his claimed billions, a part of his fortune depends now on his celebrity. Hence the appeal of another shot at politics. Outrageousness begets attention, being well-known helps you to run for president, and threatening to run for president makes you more famous still. As in the case of Mrs Palin, a whole sub-branch of psephology is now dedicated to figuring out whether Mr Trump is "serious" about running or merely burnishing his brand.

Now re-engage your disbelief. Polls taken this far before a primary campaign are notoriously useless. Mr Trump's sudden good showing may say more about the weakness of the rest of the present Republican field than his own strengths. Though he has deep pockets, spending a fortune is not decisive in small states that take their caucuses and primaries seriously, such as all-important Iowa and New Hampshire. And trying to outflank them, like Rudy Giuliani in 2008, has proved a weak strategy.

Once serious Republicans take a closer look at Mr Trump, they are liable to be unimpressed. Like his party affiliations (he has in his time been a Democrat and a member of the tiny Reform Party as well as a Republican), his policy positions have meandered all over the place. In a book he wrote in 2000 while angling for the Reform Party nomination, he praised Canada's single-payer health-care system. This is anathema to most Republican voters, who think Obamacare radical enough. In short, for all his undoubted entertainment value, there is virtually no chance of Mr Trump becoming president. Thank goodness.

Economist.com/blogs/lexington

Cuba's communist congress

The start of a long, slow goodbye

Age has at last caught up with the Castros and their revolution. New ideas are emerging slightly faster than new leaders



WHEN serious illness forced him to hand over power in 2006, Fidel Castro had been running things for almost half a century. This included an incident when, needing a knee operation, he contrived to have an epidural so that he could remain conscious and therefore in charge. Under Fidel, term-limits seemed less likely in the Plaza de la Revolucion than in, say, Buckingham Palace.

But on April 16th Raul Castro, who formally took over as president from his older brother in 2008, broke with tradition. Speaking at the opening of a four-day Congress of the ruling Communist Party, he declared that senior officials, including himself, should be limited to two consecutive five-year terms in office. "It's really embarrassing that we have not solved this problem in more than half a century," Raul, who is aged 79, said. As the generation that led the revolution of 1959 has grown old in office, Cuba has lacked "a reserve of well-trained replacements with sufficient experience and maturity," he admitted.

But the Congress largely failed to put Mr Castro's words into practice. He was duly elected as party first secretary, replacing Fidel. Jose Ramon Machado, an 80-year-old Stalinist, will remain his number two, and Ramiro Valdes, aged 78, number three. The 15-member politbureau contains only three new faces. Fidel himself made a surprise appearance at Raul's side at the end of the Congress (see picture). The message seemed to be that change can only happen if the old guard approve.

Term limits will be discussed at a party meeting in January. It is hard not to imagine that the recent Arab uprisings against dynastic dictatorships influenced this attempt to curb the power of future leaders. And some will see the announcement as a snub to Venezuela's president, Hugo Chavez, the Castros' closest ally and chief benefactor, who has been in office since 1999 and is preparing to run for another six-year term in 2012.

Raul is quietly discarding many of the revolution's founding ideas, if not yet its veteran leaders. The Congress formally approved measures announced last September designed to rescue an economy that can no longer feed Cuba's 11m people in the face of low productivity at home and a chronic shortage of foreign exchange (only partly attributable to the American economic embargo).

Raul again stressed that the "updating of the model" is to perfect socialism, not scrap it. State planning will remain paramount. But the market will play a much bigger role. About 1m workers are to leave public jobs and set up small businesses. The *libreta*, the ration card that has guaranteed a (dwindling) monthly food supply to every Cuban for half a century, has become "an unbearable burden for the economy and a disincentive to work," Raul said. It will now go only to the neediest.

In small ways the Congress amplified the reforms (though that is a banned word). It approved a change allowing Cubans to buy and sell their homes, a move on which there had been some foot-dragging, and called for taxes on the new businesses to be reviewed periodically to ensure they were not too burdensome. And the delegates discussed boosting the tourist industry by allowing more foreign investment in golf courses and marinas.

In practice change is moving slowly. Less than a fifth of the planned half a million workers are reported to have been laid off by the end of March. Many fear loss of perks, and have resorted to a cumbersome appeals procedure. Of the 200,000 new small-business licences issued, some two-thirds are thought to have gone to existing, but previously clandestine, outfits. Promised credit is not yet available.

Even so, stalls selling drinks, flowers and pirate DVDs do brisk business. In the hallway of his home in Havana's crumbling old town, Evys Diaz repairs shoes, while his brother Hector cuts hair. A neighbour runs a cafe out of an open window. Mr Diaz, a Bronte enthusiast who rushes upstairs to fetch a postcard of Haworth, admits that he has worked privately for several years. But taxi drivers grumble that they face more competition; some Cubans say there is less bread in the shops since private pizza-makers started buying up flour.

Though Cuba remains a communist country of one-party rule and a state media monopoly, in some ways debate is becoming freer. Under Raul, Cubans have been allowed to buy mobile phones and computers (though they remain expensive). It is a bit easier to get access to the internet. More than 90 political prisoners have been freed since last summer.

But there are narrow limits to the relaxation. A student reports being hauled off to a police station after attending a free internet session at the United States' consular office. At a march on April 16th to celebrate the 50th anniversary of the rout of the CIA-backed invasion at the Bay of Pigs, several people reported being ordered by their bosses to attend.

The Castros are still revered by many older Cubans. Salvador Renova Mejias, a sprightly retired history teacher, fought "like an ant against an elephant" at the Bay of Pigs. "I knew Cuba before the triumph of the revolution. I would rather have died a thousand times than return to the past," he says. But there are many signs that younger Cubans are more restless.

If the youth are awkward politically, the elderly are an economic problem. The government has raised the retirement age for men to 65. From 2020, more people will leave the workforce each year than enter it, placing even more strain on the creaking economy. Age is creeping up on the Castros in more ways than one.

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Argentina's economy

Lies and Argentine statistics

Stalinist practices in Buenos Aires

MOST Argentines reacted with a shrug when their government began doctoring its consumer-price index in 2007. Cooking the books cost holders of the country's inflation-linked bonds at least $2.3 billion last year. But anyone else who needed to know the true inflation rate simply turned to a clutch of private economists who drew on their own price surveys, data from provincial governments and other official statistics. They reckon that inflation is now running at about 25%. That is far above the 10% reported by INDEC, the government statistics agency, but less than the 30% wage increases public employees have received in recent years.

A presidential election looms in October and inflation, and the government's denial of it, is perhaps the biggest threat to the prospect of President Cristina Fernandez winning a second term. That may be why Guillermo Moreno, the thuggish commerce secretary, is moving to stamp out the unofficial, but widely trusted, price indices. To do so he has dusted off a decree, penalising misleading advertising, approved by a military dictatorship in 1983. In February he sent letters to 12 economists and consultants ordering them to reveal their methodology, on the grounds that erroneous figures could mislead consumers.

Some of Mr Moreno's targets refused; the rest were analysed by INDEC, which predictably found their methods flawed. Seven of them were then ordered to pay the maximum fine of $123,000 (all have appealed). The financial threat is especially serious for Graciela Bevacqua, who lost her job as head of INDEC in 2007 for refusing to tamper with the price index. She now publishes her own inflation estimate with the help of a business partner and former students.

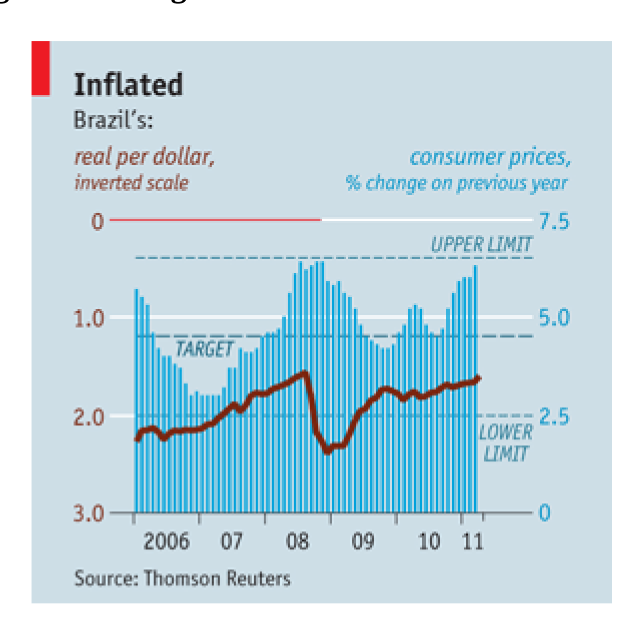
"The others are companies or foundations," she says, "but we don't have clients or assets. The only thing I own is my house where I live with my children. They'll take it away if they continue with this." Only one firm has stopped publishing its inflation estimate. So far Mr Moreno has merely succeeded in drawing attention to his own mendacity.

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Brazil's economy

Wild horses

A soaring currency is complicating the battle against inflation



INFLATION is at 6.3% and is poised to break through the ceiling of the Central Bank's target of 2.5-6.5% for the first time since it was adopted in 2006. That is despite the currency surging to 1.58 reais to the dollar, close to its peak since it was allowed to float in 1999-and much stronger than either the government or industry would like. All this means that monetary policy in Brazil is attempting to tame two wild horses at the same time. The Central Bank has already raised its benchmark rate by three percentage points over the past year, to 11.75%, with another 0.25-0.50 points expected from its monetary-policy committee on April 20th as *The Economist* went to press. But as the bank admitted in its latest quarterly inflation report, it does not now expect to bring inflation back to its central 4.5% target by the end of 2011. The economic cost, it said, would be "too high".

The difficulty for the Central Bank is that each rise in interest rates-already the highest of any big economy-makes Brazil more attractive to footloose foreign capital. In the first three months of 2011 it saw net inflows of $35 billion, more than in the whole of 2010. That pushes up the currency, which is not directly the monetary-policy committee's concern, and throws fuel on an overheated economy, which is.

To try to curb inflation without boosting the real further, the bank is resorting to what central bankers call "macroprudential measures", such as higher bank reserve-requirements. The finance ministry has chipped in by raising taxes on consumer credit, foreign bond issues, and on overseas loans and derivatives' margins. Without such measures, says the finance minister, Guido Mantega, the real would be at 1.4 to the dollar.

Some think the government should welcome the inflows, let the real rise where it will and cut public spending to eliminate the expansionary fiscal deficit. All that would bear down on inflation and in turn allow the bank to cut rates, thereby stemming inflows and eventually allowing the currency to fall. But the government is afraid this would lead to a destabilising outflow once rich countries start tightening monetary policy-and that manufacturers would be unable to survive a stronger real, even temporarily. FIESP, an industrialists' trade body in Sao Paulo, says its members are already struggling: in 2010 the share of imported industrial goods in total consumption was at an all-time high. It wants the government to restrain speculative inflows by imposing far higher initial margin requirements on currency futures.

Dilma Rousseff, the president, has promised to do whatever it takes to control inflation. A big test involves the minimum wage, due to rise next year by 7.5% above inflation, unless the government amends the formula used to calculate it. That would push up state pensions, which are linked to minimum pay, as well as wages across the board, as many salaries are expressed in multiples of the minimum. The danger in trying to steer the exchange rate and inflation simultaneously is the risk of losing control of both of them.

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Japan

Silenced by gaman

The world has admired Japan's stoic spirit. But there is a worrying side to it



IN A nation of stoics, the most patient sufferers-by common consent-are those from Tohoku, the poor north-eastern area struck by earthquake and tsunami on March 11th. The best-known poem by the region's most beloved poet, Kenji Miyazawa (born in 1896), starts "Be not defeated by the rain". It extols the virtues of enduring harsh conditions with good grace. Rarely can Miyazawa's fellow northerners have faced such a test of true grit. Yet the worry is that the longer they suffer in silence, the less they will act as a spur for revival in Japan.

In the past week three developments have cast doubt on the usefulness of Japan's prevailing attitude of *gaman*, or endurance. First, on April 17th Tokyo Electric Power (TEPCO) laid out a nebulous six-to-nine-month plan to bring its

damaged Fukushima Dai-ichi nuclear-power plant to a state of cold shutdown, in which it stops leaking radioactive matter. That is a long time for northern Japan to remain in radiation limbo. Yet there is no grand plan for dealing with the tens of thousands of evacuees-many in their 70s and 80s-from towns near Fukushima who are living in temporary shelters. They have been told by the central government that they may be able to return home once the nuclear situation stabilises, though many are understandably dubious about that possibility.

Some evacuees feel that if they move outside their prefecture, they will lose benefits and links to their communities. Families have been broken up by dysfunctional policies, such as evacuating pregnant women and young children, but not fathers and older children. Indebted farmers and business people have not been offered debt relief by the banks, though they have lost all sources of income. There are innumerable stories of personal hardship. Yet in the absence of concerted local pressure for financial support from Tokyo, the central government appears stuck in the comforting rituals of parliamentary squabbling with a myopic opposition.

Second, on April 14th Naoto Kan, the prime minister, inaugurated a 15-member task force that aims to develop a "New Tohoku Model" for rebuilding stricken areas. This may not be enough to head off rising frustration. North of Fukushima, the biggest challenge is rebuilding tsunami-destroyed areas in a way that makes them safe, economically successful and compact enough to benefit the many elderly residents who live there. Again, locals speak of their need for housing and places to work, but their communities have not organised to press those claims. The new task force has solid local representation. But it hardly sounded reassuring when Makoto Iokibe, who heads the panel, spoke dreamily on its first day of creating "Hills of Hope" on which to site the new towns.

A third area in need of public debate is energy policy. This ranges from the future of nuclear power, to the conflicts of interest between regulators and utilities, to the dysfunctional state of the national power grid. West and east Japan are unable to share electricity because of different transmission frequencies dating back more than a century. Conservation will help (see next story). But it will not allay the sense of unease. Thousands have gathered in anti-nuclear protests in Tokyo and elsewhere. An opinion poll by *Asahi Shimbun*, a national newspaper, showed that the percentage of those opposed to nuclear energy has risen to 41% from 28% in 2007 (women are the strongest opponents), though the share favouring the nuclear status quo barely fell from 53% to 51%.



But despite the protests, there have been few signs of real debate. And debate is important, because however much Japan stands to lose without nuclear power, it also needs to settle long-term structural issues, such as where to dispose of nuclear waste, and whether old plants such as Fukushima (started in 1971) should be replaced by newer ones.

In an article published in American newspapers on April 15th, Mr Kan said the crisis would reinvigorate energy policy and create a more vibrant nation. But for that to happen, Japan needs new voices to speak out. On the Tokyo Tower, a steel structure that dominates the capital's skyline, a lit-up message says *Ganbaro Nippon*-"Keep it up, Japan"-a phrase that smacks of heads-down endurance, rather than the hope of better things to come. People in Tohoku are beginning to resent the phrase, because it sounds like a demand to endure even more. If they are finally running out of *gaman*, it might be a healthy sign.

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Japan's energy crisis

What crisis?

Why the capital should turn off its toilets

IF ANYTHING could make Tokyo Electric Power (TEPCO), the disaster-stricken utility, more unpopular, it is the prospect of a sweltering summer without enough electricity to keep the air-conditioners running. Yet TEPCO may have pulled off a rare public-relations coup. Having convinced its customers that a massive energy-saving sacrifice was necessary, it has now found that it has more back-up than it thought.

On April 15th it lowered its estimate of the power shortfall during peak summer months to 3-4.3 gigawatts, from 8.5GW announced three weeks earlier. The extra capacity comes from an additional 100 or so small natural-gas turbines; firms generating their own power; and more hydroelectricity.

Experts say much of the remaining shortfall could be made up for relatively painlessly. Thanks to Japanese industry, which uses a similar amount of energy as it did during the oil shock of 1973, the country is already the world's most energy-efficient. But households and businesses are prone to huge swings during peak times and are less economical overall.



As an example of excess, the famously luxurious Japanese toilet with sprays and dryers accounts for an amazing 4% of household-energy use, according to the trade ministry. Yet even the prime minister's office has not yet turned them off. Avoiding microwaves, irons, hairdryers and other appliances at peak times could shave 1.4GW off demand, according to the Institute of Energy Economics.

A more frugal spirit could apply to leisure, too: 4,000 *pachinko* pinball parlours in greater Tokyo use 840MW during peak hours-more than twice the city's main subway system. And in offices, a one-degree increase in the temperature can cut the energy use of air conditioners by 3-4%. Tatsuo Masuda, an energy expert at the NUCB Graduate School in Nagoya, thinks Japan could develop a fashion niche for clothing that beats the summer heat. All thanks to the hopeless, villainous TEPCO.

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India's vanishing Communists

Red and buried

Two state elections bring India's once-powerful Marxists to their knees



The people's flag is deeply shred

RED flags flutter. Hammers and sickles are daubed in lurid colours by the roadside. Placards of plump, bearded leaders-Marxist answers to Father Christmas-are propped near coconut palms. At an election tour in the southern state of Kerala, crowds of Communists are putting on a dutiful show of support. Yet few expect to see their party back in office next month.

The comrades are out to hear Prakash Karat, their grey-haired general secretary who counts, by the geriatric standards of the Communist Party of India (Marxist), as relatively youthful. He sets no hearts racing. At rally after rally desultory applause meets his comments on food inflation and graft, promises of subsidised rice and swipes at the "bourgeois" Congress party.

His message is dated. India's economy is racing ahead and the bourgeoisie is thriving. A claim that "only India's 59 dollar-billionaires" are prospering rings false: anyway, many in the audience are too busy fiddling with their mobile phones to pay it much heed. Keralites prosper from globalisation: one-in-four households has a relative toiling in the Gulf. "We are a consumption state, cashing 20,000 crore rupees ($4.5 billion) each year from migrant relatives" points out Gopa Kumar, a professor at the local university.

Voting took place on April 13th and the Communists are likely to be kicked out. Christians and Muslims, with nearly half Kerala's population, have swung against them over a botched attempt to cap fees at privately run religious schools. Keralites, India's best educated people, are famously crotchety and like to boot their incumbents out. The Reds have run the state for 28 of the past 54 years, mostly alternating with the Congress party since 1957, when Kerala became the world's first parliamentary state (tiny San Marino aside) to vote communists into office.

More painful is their pending defeat in West Bengal, which, with 91m people, is bigger than Germany. The Communists have run it non-stop since 1977, with large majorities. That spell should end after a staggered series of polls that began on April 18th. Over 80% turnout that day and long queues of voters in the north suggest Bengali voters are hungry for change.

A high-ranking party leader concedes "the odds are against us": people are fed up with the chief minister Buddhadeb Bhattacharjee, better known as "Buddhababu". The Marxists held West Bengal mostly thanks to farmers, who have long been grateful for land reforms in the late 1970s. But hostility to business, the collapse of textile factories, and labour and capital flight have all battered industry.

As Bengalis grew desperate for jobs beyond the paddies, so Buddhababu shifted, telling outsiders after 2006 how fond he was of trade and asking investors like Tata Motors to set up in the state, once the capital of India's car industry. But his efforts got nowhere. Bungled attempts to grab land, and protests by farmers, scared Tata and others away.

His fate looks likely to be sealed by a pact between the Congress and Trinamul Congress parties who have united (just about) behind the national railways minister, Mamata Banerjee. If the Communists lose, the only remaining Red state will be little Tripura, a poor and neglected patch of 3.6m people wedged behind Bangladesh in the far north-east. That marks a dramatic collapse in fortunes. Just three years ago the Communists had a power-sharing deal with the national government and were strong in parliament and state assemblies.

Their failures are mostly local. Mr Karat admits to feeling "boxed in". The party cannot appeal to identity politics, because the Bharatiya Janata Party (BJP) draws Hindu nationalists and regional leaders such as Mayawati in Uttar Pradesh rally low-caste backers. And judged on policies, the Communists are being squeezed by Congress's left-leaning plans for an expanded welfare state.

Tactically, too, they have erred. They could have joined the Congress-led national government in 2004, promoted young leaders and taken charge of welfare, argues Ramachandra Guha, author of a book on modern Indian history. Instead, invoking Lenin-whose white marble bust still adorns the party headquarters in Delhi-they sat outside, first backing, then trying to topple the government over a civil-nuclear deal with America. They could also have campaigned harder against corruption. "They are probably the only politicians in India who don't have Swiss bank accounts," suggests Mr Guha. But social activists, judges and the BJP got there first.

Their influence has mattered. They urged hostility to America in the Cold War and statist policies that choked economic growth for decades. More helpfully, they pushed literacy and women's rights, and opposed "untouchability" and the caste system. A battering at the polls, when results are published on May 13th, will not quite finish them off: younger leaders with more flexible ideas may be back in office in a few years' time. But a curtain, of sorts, is falling on Indian Communism.

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Bangladesh

The Arab spring's chill winds

An unexpected downside



Trapped in Misrata, miserable in Dhaka

WHEN the Arab spring was in its infancy something unusual happened in the world's second-largest Muslim-majority democracy. Following violent protests, Bangladesh's prime minister, Sheikh Hasina, scrapped plans for a new airport near the capital, a pet project to be named after her father, Sheikh Mujib Rahman. A former Bangladeshi diplomat said he could remember no occasion on which an elected leader had reversed an important decision so quickly. He attributed the change of mind to what was happening in Egypt.

The diplomat was not referring to fears that there might be a Bengali version of the Arab spring, though the opposition Bangladesh Nationalist Party (BNP) has talked about an "Egypt-like uprising" in their country. Instead, the economic consequences of the Arab spring are what matter. Bangladesh depends on remittances from the Middle East more than any other large country. Two-thirds of its recorded remittances-$7.2 billion in the year ending June 30th 2010-came from countries in *The Economist*'s shoe-thrower's index of regional flashpoints. The Middle East contributes slightly more to Pakistan's total remittances but these account for only 6% of Pakistan's GDP, whereas Bangladesh's remittances are 12% of GDP.

The impact is certain to be bad, though how bad is unclear. Remittances are closely correlated with the number of migrant workers, lagged by about a year. On the eve of the global recession, about 6m Bangladeshis worked abroad. The figure is lower now. Saudi Arabia is by far the most important overseas labour market. It hired a mere 22,000 Bangladeshis in 2009-10, compared with 335,000 in the previous two years. Libya was Bangladesh's fastest-growing market, albeit from a low base. Thus far, 34,000 Bangladeshi workers have returned from Libya and many others are trapped under fire in the docks of Misrata (they are now subjects of an international rescue mission).

Bangladesh's earnings from remittances tend to be volatile anyway, because its workers are mostly unskilled and get laid off quickly when economies turn down. (In contrast, remittances from higher-skilled Pakistanis are still rising).

But the country is less badly affected than it might have been because its other main source of foreign exchange-textile exports-is doing well. This is partly because of rising labour costs elsewhere, and partly thanks to a rule change by the European Union. This allows clothes and other finished goods made in Bangladesh (and other least-developed countries) to come in duty-free as long as the value of their imported components does not exceed 70%. Previously, the EU granted duty-free access to manufactures with an import content of 30%. Bangladesh's main competitors-China, Pakistan, India and Sri Lanka-do not have "least developed" status, so the value of Bangladesh's garment exports surged to $14 billion in the eight months to March 2011, up 40% at an annual rate.

This will offset but not reverse the decline in remittances. The currency, the taka, is falling. So are foreign-exchange reserves. The IMF reckons the current-account balance will deteriorate sharply, from a surplus of 3.75% of GDP in 2010-11 to a deficit of 0.75% in 2011-12. Unless something extraordinary happens-perhaps a resumption of large-scale hiring by the Saudis-remittances and the external position will get worse before they recover.

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Singapore's general election

The men in white are always right

And the opposition will be lucky to win even a handful of seats

AND they're off! Parliament was dissolved on April 19th; election day is May 7th. And out on the hustings, campaigners are gearing up. Candidates pile on and off battle-buses. Glossy pamphlets are thrust into reluctant hands. And squealing babies are insistently kissed. It all looks deceptively similar to the Westminster model on which it is based. But in Singapore, opposition politicians know that they can press the flesh until the end of time and come no nearer to breaking the grip that the ruling People's Action Party (PAP) maintains over the government.

This is not for want of dissatisfied voters or impressive opposition candidates. Many Singaporeans are dismayed by the rising cost of food, petrol and other basics in an already expensive city. Opposition politicians talk persuasively about the

lot of the working poor. In a state that has little welfare provision, it is not uncommon to see people in their late 70s still working at restaurants or in supermarkets.

Rather, it has much to do with Singapore's singular first-past-the-post system. In particular, the introduction of Group Representation Constituencies (GRCs) in 1988 has tilted the ground in the ruling party's favour. Citizens in GRCs vote for a party, not an individual MP. The GRCs can have four, five or six representatives and the party that wins the constituency gets them all. The ostensible reason for introducing GRCs was to ensure ethnic-minority representation in parliament as every contesting party has to field at least one minority candidate on its slate. In practice, however, the party with the deepest pockets and most candidates wins the GRCs, which this time will return 75 of the 87 elected MPs. The opposition has never won a GRC. Such is the PAP's lock that others rarely contest more than half of them. This time, the opposition is likely to contest more, but will do well to win even one.

Instead, the opposition hopes to pick up some of the 12 single-member constituencies (SMC), as it usually does. At the previous election they won two. However, in case the whole system looks a bit unfair (this is a democracy after all) the ruling party regularly stresses its sincere belief in an effective parliamentary opposition, if only to keep its own MPs on their toes. So the government is increasing the number of non-constituency members in the next parliament to nine. These are the most successful losers among the opposition. They may be in parliament, but they cannot vote on constitutional and finance bills. It is, one of their number in the 2001-06 parliament, Steve Chia, argues, "just for show". Mr Chia, as a leader of the National Solidarity Party, this time has one of the better chances of winning a precious SMC.

There is no sign yet of a fraying of the basic compact between the PAP and Singaporeans, who trade some individual freedoms for the prosperity and stability provided by an efficient ruling party. However, at this election the usual triumph of the PAP will not disguise the fact that many Singaporeans do feel dissatisfied. There is even a possibility, some analysts think, that the PAP's share of the vote could dip below 60%. Although that will not stop it piling up its usual mountain of MPs, at that point "the men in white", as the PAP are called after their plain attire, may have to revisit some of their longstanding policies. Otherwise the rift between the aspirations of the electorate and the composition of their representatives in parliament may become too wide.

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China's economy

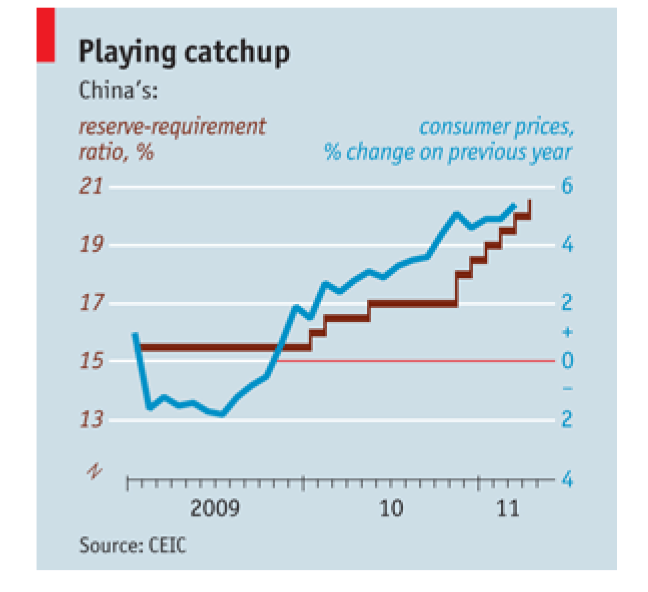
Give us an A

Is China's credit boom sowing the seeds of its own destruction?

AMERICA is not the only giant to suffer from an impertinent ratings agency. A few days before Standard & Poor's warned that it might cut the American government's credit rating (see article), Fitch said it might do the same to China. Its government's yuan debt is now rated AA-, just three notches below the safest mark. No agency has cut China's rating since 1999, according to Bloomberg.

Fitch is not worried by the sovereign debt on China's books, which amounted to just 21.5% of GDP at the end of 2010. It is, however, troubled by the potential cost of bailing out China's banks, which are overlending against a backdrop of overpriced property. Only 1.1% of these loans had gone sour by the end of last year, according to China's banking regulator. But Fitch thinks that ratio is already closer to 6%, on a less forgiving view of loans to the financing vehicles of local governments.

The authorities have tried to get a grip on this lending. But Fitch believes money is passing through less visible channels, such as China's lightly regulated trust companies. Last week the central bank introduced a broader measure of "social financing", which showed lending by banks and trust firms did slow in the first quarter, compared with a year earlier. But the bond market and loans between companies filled some of the gap.



Excessive lending is contributing to inflation, which rose to 5.4% in the year to March, prompting the central bank to raise the amount of money banks must keep in reserve to 20.5%, a record (see chart). Fitch worries that the fight against rising prices might inadvertently add to financial fragility. If the authorities have to slam on the brakes, the property market will falter, jeopardising loans to developers and builders. In Fitch's worst-case scenario, a bank bail-out might cost 30% of GDP. That is a phenomenal figure. But it would still leave China's public debt below that of Brazil, let alone India. Indeed, China is remarkably creditworthy for a country at its stage of development. The typical AA country is more than six times richer.

For an emerging economy, China has a respectable record against inflation. But its credibility is not enhanced by the antics of the National Development and Reform Commission (NDRC), the country's planning body, which vies with the central bank for influence. According to the *21st Century Business Herald*, a Chinese newspaper, NDRC officials have been telling foodmakers to avoid price rises by frying noodles in cheaper oil. Turning down the economic heat would be a better recipe.

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China abroad

Bang a Gong

China's critics are being silenced in South-East Asia

IN ITS foreign relations, China parades a policy of non-interference in the internal affairs of others. It routinely vetoes UN resolutions on this ground (on Libya, it abstained). It boasts that unlike meddlesome Westerners it offers trade and aid without strings, (see article).

Yet in its pursuit of domestic enemies, China is making more demands of its neighbours. Inviting the Dalai Lama to visit has long been a no-no. The same goes for rebellious Uighurs. A group of 20 that fled to Cambodia in 2009 were handed back to China before they could claim political asylum.

Now the target is Falun Gong, a quasi-Buddhist sect that China banned in 1999. Apparently prodded by China, Vietnam and Indonesia have shut down Falun Gong-affiliated radio stations and prosecuted station operators, though neither country forbids the group. Two Vietnamese men arrested last year face up to five years in jail if found guilty of illegal broadcasting. Their trial had been due to begin on April 8th but was postponed. In Indonesia a station manager went on trial last month for a similar offence.

Both cases smack of interference by China. The Vietnamese legal indictment cites a May 2010 Chinese diplomatic request for joint action to stop short-wave transmissions into China by the accused pair, who were detained two weeks after the

date of the memo. The indictment says their illegal broadcasts in Chinese had "negatively affected" political trust between the two governments.

Indonesia's case is, if anything, more troubling, as it is a democracy with a free press. New Era Radio, the private station forced off-air, carried Chinese-language content-including reports of alleged human-rights abuse in China-provided by Sound of Hope, a radio network based in California. Sound of Hope claims to reach tens of millions of listeners in China, mostly via short-wave (Taiwan leases it airtime). It also broadcasts to overseas Chinese communities.

They have fewer sources of information these days. The cash-strapped BBC recently ended its World Service Mandarin-language short-wave broadcasts after 70 years. The World Service's American equivalent, Voice of America, is due to do the same in October. China used to jam their broadcasts. Now it has found an arm's-length way to keep out unwelcome news.

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Banyan

The Hindu rate of self-deprecation

Listen to the critics and India's economic miracle seems, well, miraculous



FOR all its success in recent years, India's economy has disappointed its boosters in at least one way: growth has remained slower than China's. In terms of national income per head, China overtook India only two decades ago. The gap has widened relentlessly since. Yet last year, according to the IMF's *World Economic Outlook*, India's economy grew by 10.4%, outpacing China's, albeit by six-hundredths of a percentage point (see article). That number may not be wholly reliable. India's government, which measures GDP in a different way, puts growth at 8.6%. But even that is spectacular compared with the lumbering "Hindu rate of growth" of not long ago, and most economists now accept the possibility that in a few years' time India might supplant China as the world's fastest-growing big economy.

So foreign and local businesses alike should be oozing confidence. Yet last year foreign direct investment into India fell by almost a third. This January, the year-on-year decline was 48%. And, to judge from two recent conferences, when Indian businessmen or experts get together, they do so not to praise the country's business environment but to bury it in withering criticism.

Their observation is borne out by surveys. In the World Bank's "Ease of Doing Business" index, India ranks 134th out of 183 countries, scoring particularly badly on ease of starting a business (165th) and, above all, enforcing contracts (182nd, behind Angola but pipped by Timor-Leste for the bottom slot). Another index, on "Entrepreneurship and Opportunity", produced by the Legatum Institute, a think-tank, puts India 93rd out of 110 countries.

That low rank is in large measure a consequence of the expense of starting a business. And there are plenty of other obstacles in the way of both local and foreign entrepreneurs. India is still tangled up in red tape. It takes time and trouble merely to discover what permits a business needs. Rules differ across the country. In Mumbai there are, according to the World Bank, 37 procedural hoops to jump through to gain approval to build a warehouse. It takes 200 days to secure them and costs 2,718% of national income per head. In Kolkata a mere 2,549% of income and 27 permits are needed, but they take 258 days to procure.

Then there are India's infrastructural shortcomings. For all the improvements of recent years, the road network remains dreadful, the railways overloaded, seaports clogged, airports struggling to cope with the huge increase in flights and electricity and water supplies in many places shockingly unreliable. Faced with unflattering comparisons with China, Indians used to cheer themselves up by boasting of their superior "soft infrastructure", of accountable institutions and the rule of law. But the backlog of cases in the legal system is estimated at more than 30m.

Business as a whole is disappointed by the timidity of the government of Manmohan Singh. A Legatum Institute survey of entrepreneurs in India and China found that only 11% of Indians thought their government was doing "a very good job", compared with 30% in China. The grand liberalisation of the Indian economy Mr Singh ushered in 20 years ago as finance minister has been replaced by creeping, incremental reform. Nobody now expects his government to tackle one big, unreformed obstacle to business: employment-destroying labour laws.

None of this, however, entirely accounts for the strange disconnect between high growth and low index rankings. After all, that Legatum Institute survey found that 83% of Indian business owners also thought the country "a good place for entrepreneurs to succeed". Nearly half expected India to be the world's biggest economic power in 20 years' time, which would be a real miracle. All the gripes about the business climate seem like muttering about the weather. Everyone complains about it but no one does anything about it. And it does not seem enough to detract from India's underlying strengths-the long-lasting benefits of the liberalisation of the 1990s; its favourable demographic profile; its successful diaspora now returning home in large numbers to invest; and its thriving businesses in those areas such as information technology where the government has got out of the way.

Two grouses, however, do seem fundamental. Businesses of all kinds complain about the difficulty of finding and retaining qualified staff. Garment-makers cannot find enough workers with even the basic literacy they need. Hotels and shops see English-speaking staff lured away by call centres. The big IT and outsourcing firms have to invest more and more in teaching graduates what they should have learnt in college. Over the next decade the Indian workforce will increase by at least 80m. That is the "demographic dividend" underpinning much economic optimism. But agriculture is fully staffed. Poor basic education and restrictive labour laws will make it hard for many to find jobs in manufacturing, and there is a limit to how many can work in services. The dividend may prove hard to cash.

Angry at last

The second grumble is corruption. Endemic for decades, it has at last become the subject of genuine rage throughout society and business (even though business, is, of course, complicit). "It's like living in a pile of vomit," snarls one Mumbai entrepreneur. This, however, is a little odd. Information technology may actually be reducing some forms of corruption. There are fewer meetings across tables under which envelopes can be passed. Moreover, bribes in India used to be of dubious value, since the recipient would often prove unable or unwilling to fulfil his side of the bargain. Now, the evidence of the growth figures is that corruption has become less inefficient. The mobile-telephone network, for example, despite huge scandals, has expanded tremendously. It is tempting to ask whether India has tired of corruption just as it was beginning to show some results.

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Libya's war

Can NATO save Misrata?

It is vital for Muammar Qaddafi's foes that they hold on to Misrata



THE agonies of Misrata, the western rebel-held city that has withstood a bloody siege by Muammar Qaddafi's forces for nearly two months, have exposed the dilemmas that are reducing the effectiveness of NATO's air campaign. As efforts were stepped up to evacuate by sea the badly wounded and the trapped migrant workers desperate to escape, rebel commanders in Misrata warned the outside world via Skype that unless NATO did more to help, the town could fall within days. One, calling himself only Muhammad, said rebel fighters and civilians were "like rats in a cage", with scores of people dying. He claimed that there had been no air attacks for several days on Colonel Qaddafi's men, who are surrounding Misrata on three sides: "We are being hit by mortars, Grads, Katyushas, you name it-and there is no action [from NATO]."

Misrata is receiving some medical supplies from the sea (and also weapons coming from Benghazi and possibly Qatar), but with food and water running low and sheer exhaustion setting in, it may not be able to hold out much longer. On April 18th the UN reached an agreement with the Libyan government in Tripoli to establish a "humanitarian presence" in the country that would let aid workers operate in areas controlled by the government, but it is unclear whether this will help Misrata.

Musa Ibrahim, a Libyan-government spokesman, said that the agreement with the UN was to provide "safe passage for people to leave Misrata, to provide aid, food and medicine." But the implication was that this would happen only after loyalist forces had regained control of the city. Meanwhile, the European Union has drawn up plans to deploy a small military contingent to get help into Misrata, but the UN is nervous about the proposal, and NATO says it does not want to confuse its mission by getting involved other than by ensuring safe passage for ships and aircraft carrying humanitarian supplies.

Apart from the humanitarian crisis in Misrata, the city-the country's third largest with a population of more than 500,000 and an important port-is strategically vital. As long as it holds out, it prevents Colonel Qaddafi from imposing a de facto partition between west and east and provides encouragement to the opposition in other western towns, such as Zintan and Zawiya, and even in those parts of Tripoli, the capital, that briefly rose up in the early days of the revolution.

NATO's problem is that it currently lacks both the means and the mandate to do much to help Misrata. Loyalist snipers in buildings across the city cannot be taken out from the air without killing civilians nearby. It is tricky even to go after the mortars (some of which are firing cluster munitions, according to the New York-based Human Rights Watch) and the Grad rockets being fired from outside the town. Compared with a tank or heavy artillery, they represent a tiny and easily hidden target. Yet a single Grad multiple launcher can fire a salvo of 40 (highly inaccurate) rockets.



To have some effect against such dispersed targets, NATO requires some combination of sophisticated (special forces) spotters on the ground, the ability to loiter above the target area until opportunities arise and the right sort of aircraft to deliver the blow. Fast jets armed with missiles costing up to 100 times more than the weapons they are trying to destroy are of only limited use.

According to Douglas Barrie, an air-power specialist at the International Institute for Strategic Studies in London, the best solution may be to use attack helicopters, but "it depends how much risk you are prepared to take". They would be vulnerable to man-portable air defence systems (MANPADs), such as the heat-seeking SA-7, that Colonel Qaddafi has in abundance. Another option may be to mount a drone-based combat air patrol over Misrata which could strike every time a mortar or rocket team popped its head up. But though the early, surveillance version of the Predator drone is being used above Libya, the heavily armed and bigger Predator B, known as the Reaper, which is proving so potent against the Taliban in Afghanistan, is in short supply.

If helicopters are ruled out and there are not enough drones, that leaves only the US Air Force A-10 tankbusters and the AC-130 gunships that were used for a few days in late March and then withdrawn when America handed over command of the air operation to NATO. Last week, at a rather sticky meeting of NATO foreign ministers, Admiral James Stavridis, the supreme allied commander in Europe, was reported to have asked for eight additional "specific" warplanes needed for precision strikes. There is speculation that the aircraft he was asking for were the A-10s and AC-130s. However, as *The Economist* went to press, there were no indications whether Robert Gates, America's secretary of defence, would sanction the release of the aircraft and the official line from NATO is that no requests have been made.

They are, however, the only potentially game-changing assets readily available. During the first Gulf war, in 1991, the A-10 Thunderbolt is estimated to have destroyed 900 Iraqi tanks. It flies relatively slowly and can loiter above targets. The AC-130, based on the ubiquitous C-130 Hercules airlifter, is an even more lethal platform than the A-10, with a huge array of heavy weapons and sophisticated fire-control systems. But it is much more vulnerable to ground fire than the heavily armoured A-10 and in "non-permissive environments" can operate only at night.



NATO sources claim that the air campaign has close to everything it needs and that about 45% of the sorties being flown result in bombs or missiles being dropped or fired. There is some frustration that the rebels criticise NATO for holding back and then criticise it again when it takes action and something goes wrong. But Anthony Cordesman at Washington's Centre for Strategic and International Studies argues that the problem is driven by the limits to the mission rather than the number of aircraft and the way they are deployed. Using air power to hit scattered, lightly armed ground forces as opposed to aiming at more strategic targets, such as Colonel Qaddafi's command centre, bases and other sites affecting his regime's survival, is inherently inefficient. "Is the human cost of a slow war of attrition a better choice than acting decisively within a wider mandate?" asks Mr Cordesman.

The argument over whether the West should arm the rebels-and whether even an elastic interpretation of UN Security Council resolution 1973 would allow for it-is trickier still. Some say it is not weapons the rebels lack but training, communications, better co-ordination between the military and political wings-and an effective command structure. To that aim, the Western coalition has begun to send British, Italian and French military "mentors" to help set things up. So Western soldiers will be on the ground-but not "occupying" the country. Not surprisingly, such steps make many people nervous, including those who want to see the back of Colonel Qaddafi.

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Syria's president

Ever more embattled

For President Bashar Assad, things are going from bad to worse



Praying in Homs for Assad to go

THE president of Syria is in a fix. Bashar Assad must decide whether to copy the tactics of Hosni Mubarak, who tried too late to appease the protesters, or those of Muammar Qaddafi, who killed many hundreds of his people when they turned against him. But he is swinging between those two poles. Neither course is doing him much good. The killing of at least 15 people in the early hours of April 19th in Homs, the country's third city after Damascus, the capital, and Aleppo, may have marked a turning point. Mr Assad's grip looks increasingly weak.

His first attempt at dampening dissent by promising reform, in an address to parliament on March 30th, was a failure, because his belated offer seemed vague and haughtily insincere. On April 16th he tried again, this time with a speech to government insiders. He said citizens needed dignity. He acknowledged Syria's economic woes and spared his audience his usual railing against foreign conspiracies. He sounded more sincere (and more desperate) than before. He may even have been trying to signal a change of tack. But the people on the street no longer take much notice. The protests in Homs got going immediately after his second speech.

Getting a foothold in that city is a big step for the opposition, which had failed to foment sustained unrest in the heart of Damascus or Aleppo. On April 18th thousands of demonstrators sat down in Homs's main square, which they renamed Tahrir (Liberation) Square, after the Cairo one. But at 2am, after the protesters refused to move, the security forces opened fire with tear-gas and bullets.

The next day Mr Assad promised, not for the first time, to lift the emergency laws that have been in use since 1963 and have given the security forces carte blanche to deal with dissent. But this, too, may have come too late. At rallies across the country, chants calling for Mr Assad's resignation have begun to drown out those calling for reform. In any case, the lifting of emergency laws, finally announced on April 19th, may not necessarily improve the behaviour of the security services. Nor has Mr Assad promised to free political prisoners.



Yet if he were to meet all of the protesters' demands, his regime might be fatally weakened. Dominated by members of the minority Alawite sect, to which the president belongs, it depends on the loyalty of the security forces, which are bought off by largesse. If, as the protesters demand, this patronage system were ended, Mr Assad's hand would be severely weakened. Likewise, a promise to legalise opposition parties could be politically suicidal.

He is also taking a risk by blaming conservative Sunnis for the recent troubles, linking them to militant Islamists such as al-Qaeda. "Their terrorist activities will not be tolerated," say government spokesmen. Such charges raise the spectre of the 1980s, when a revolt by the Muslim Brothers was ruthlessly suppressed, leaving around 20,000 dead. Mr Assad may not be as brutal as his father, Hafez Assad, who oversaw that wave of repression-and survived. Yet if he is not, his days in charge may be numbered.

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Morocco's monarchy

Reform or fall

Has the king's promise of reform come in the nick of time-or not?

WHEN a protest movement sprang up in Morocco on February 20th King Muhammad VI chose to ignore it. The next day he spoke of speeding up reforms, but ignored calls for radical change. This infuriated pro-democracy campaigners, who promised to protest again. But then, on March 9th, he suddenly changed tack, calling for a drastic overhaul of the constitution, echoing the protesters' main demand. Parliament and the courts, he said, would become more independent. Power would be devolved to regional councils. The prime minister would have more clout. And the Berbers, known as *Amazigh*, would have more rights too.

Overnight, Morocco's generally malleable political leaders and newspaper editors, who had at first rubbished the demand for a new constitution as subversive, became the keenest of reformers. They hailed the appointment of a committee headed by a leading lawyer to produce a draft by June, for endorsement in a referendum in September, as a sign that Morocco would undergo a "peaceful revolution".

The king's allies abroad rushed to congratulate him. Alain Juppe, France's foreign minister, called his speech "courageous and visionary". Hillary Clinton, the American secretary of state, praised his proposals, saying that Morocco was "on the road to achieving democratic change." A recent tour of the country by Britain's Prince Charles "confirmed that Morocco is stable", according to the prime minister, Abbas el-Fassi. The promise of constitutional reform has been widely welcomed by Moroccans and may, for a while, avert the turmoil that has engulfed much of the region. But protesters have continued to take to the streets in big numbers every weekend since March 20th. Many say that a constitutional commission

appointed by the king is bound to reaffirm his executive power. A Spanish- or British-style monarchy is not yet, they sigh, in the offing.



Though most of the protesters express respect for the person of the king, criticism of the manner in which his monarchy operates has grown. Too much power is said to be concentrated in his palace circle. Complaints are growing that the royal family owns too much of the country. The National Investment Company, known by its French initials, SNI, is said to control Morocco's biggest bank, insurance company, dairy and cooking-oil firms, as well as a large acreage of real estate—and is now often castigated for its anti-competitive practices. The denigrators even carp at the king's cultural policies and call for the Mawazine festival, an annual musical extravaganza held in the capital, Rabat, to be cancelled on the grounds of excessive cost.

Such outright criticism of the monarchy, which has become widespread, itself marks a small revolution. The protesters have also taken on the main political parties, whose leaders have previously tended slavishly to echo whatever the king says. This in turn has forced some of those leaders to become more critical. Journalists who had been exiled or kept out of print by the government in recent years have resurfaced online, with websites sympathetic to the protesters. In one dramatic case online journalists have aired a litany of corruption allegations against Moncef Belkhayat, the minister of youth and sports, challenging him to answer questions about the dispensing of government contracts. He has denied the charges, but such scrutiny is unprecedented.

Citizens' initiatives are sprouting, with local councils and firms accused of corruption and overcharging for municipal services. The king's constitutional initiative may lead to the institutional breakthrough many hoped for at the start of his reign in 1999. But if it stalls, a wave of even angrier protest may well erupt in September. So the next few months will be critical to the king's survival.

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Nigeria's presidential election

The real thing

The incumbent, Goodluck Jonathan, has won handily and more or less fairly



The hat stays on

TWO days before polling day, in the back room of a Chinese restaurant in Lagos, Nigeria's commercial capital, one of Goodluck Jonathan's campaign teams uncorked a bottle of champagne. They were certain of victory. In past polls this might have been a sign of rigging but this time apparently not.

Mr Jonathan, a zoologist who hails from a family of canoe makers in Nigeria's oil-rich southern delta, took 59% of the 38.2m votes cast on April 16th. His main rival, Muhammadu Buhari, a former military ruler from the country's arid north, took 32%. The conduct of the election was hailed as a big improvement on the unfair polls of the past dozen years.

Mr Jonathan's People's Democratic Party won thanks to a vast network of patronage and public money. Opposition parties failed to form an alliance in the run-up to the poll. In the largely Christian south, many voters plumped for the sitting president because of his roots there. Others just wanted continuity after a turbulent 12 months, during which Mr Jonathan unexpectedly came to power on the death of his predecessor, Umaru Yar'Adua. "We don't want to start afresh again," said an architect casting his vote in Lagos.

But such sentiments were not echoed in the mostly Muslim north, where the president trailed Mr Buhari and must now build bridges. As early results trickled in and put Mr Jonathan in the lead, youths began torching buildings in northern cities, including Kano and Kaduna, the business and political hubs respectively that have lost their clout in recent years as the landlocked region has declined. Curfews were swiftly imposed. Mr Jonathan and Mr Buhari appealed for calm.



Many northerners said the youths were not just railing against the election results. Northern Nigerians are poorer and worse educated than their compatriots in the south. A string of leaders, including many from the north, have failed to redress such inequalities. "These young people should be driving development but they feel outside the focus of the government," says Auwalu Anwar, a member of Mr Buhari's Congress for Progressive Change (CPC).

International and Nigerian observers have so far praised this month's parliamentary and presidential polls (contests for state governors are scheduled for April 26th), marking a contrast to a widespread rejection of the previous ones in 2007. "We appear to have witnessed a giant of Africa reform itself," says Festus Mogae, a former president of Botswana and leader of the Commonwealth observers' team. Other teams endorsed the poll, though noting flaws. Under-age voting persisted. Local counting centres, where rigging has traditionally taken place overnight after polls close, were chaotic, as ever.

The CPC has nonetheless rejected the results. It may go to court if it has the energy for a protracted battle. Mr Buhari, who at the age of 68 has lost his third election in a row, says he will not join any lawsuit.

The poll starkly exposed the ethnic and religious fault lines in a country of 150m people. Mr Jonathan failed to win a single one of the 12 northernmost states, out of Nigeria's total of 36. Mr Buhari got less than a quarter of the votes in the 20 southernmost ones. "The good news is that there was an election and there was an effort to count the votes," says Chidi Odinkalu, a Nigerian human-rights campaigner who observed the poll. "The bad news is that we have a deeply divided country."

Mr Jonathan now has his own mandate. If he uses his four-year term wisely and spends Nigeria's vast oil wealth on development rather than his entourage, he may begin to heal his country's worrying north-south rift. If not, the bursts of sectarian violence that periodically punctuate the country could become worse.

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South Africa

A ruling party at odds with itself

President Jacob Zuma faces a rocky time



Manuel pales before the Africanists

TREVOR MANUEL, South Africa's finance minister for 13 years and now minister for national planning, fears that racism has "infiltrated the highest echelons of government". Zwelinzima Vavi, head of the Congress of South African Trade Unions (Cosatu), part of President Jacob Zuma's triple alliance (with the Communist Party as its third component), says South Africa is fast becoming a "predatory state, plagued by a paralysis of leadership". And Julius Malema, firebrand leader of the ANC's Youth League, rails against the government's support for the "killing of fellow Africans" through its vote for a no-fly zone over Libya in the UN Security Council.

These criticisms are bad news for the ANC in the run-up to local elections, the first national test of Mr Zuma's leadership since he became president two years ago. The Democratic Alliance (DA) is breathing down the ANC's neck in a number of municipalities. But the former liberation party, which usually gets some two-thirds of the national vote, is a broad church, ranging from out-and-out capitalists to flinty communists, from acquisitive "Africanists" (often a euphemism for race-minded blacks) to devotees of the party's long-vaunted non-racialism who want to spread wealth more fairly.

Jimmy Manyi, the former leader of the Black Management Forum, a business lobby, has never made any apology for his enthusiasm for the black cause. But after Mr Zuma made him the government's spokesman, his comments have sharpened differences in the party. His appointment was all the more surprising since he had been suspended only eight months before as director-general of the labour ministry for allegedly seeking to promote his own private business interests during an official meeting with Norway's ambassador.

But it is Mr Manyi's claim that there is an "overconcentration" of coloureds (people of mixed race) in the Western Cape that causes the biggest stir. The Western Cape, where coloureds make up 52% of the population compared with 9% nationwide, is the only one of nine South African provinces not governed by the ANC; and Mr Manuel, himself a coloured from that part, does not reckon Mr Manyi's remark (made a year ago in the context of affirmative-action policies) is the best way to win the province back. In an open letter to Mr Manyi, he accused him of being a "worst-order racist" seeking to impose "black domination" on South Africa.

Mr Malema, another ANC leader prone to making racist remarks, has been lashing out at Mr Zuma's rich Indian friends, the Guptas, for "colonising the country" and "amassing [its] resources". The three Gupta brothers, who settled in South Africa in the 1990s, have been accused of building up their empire on the back of their friendship with the president-a charge they deny. One of Mr Zuma's sons is involved in business deals with them worth hundreds of millions of dollars. A Zuma daughter served on one of their boards. And his current fiancee has a plum job in a mining company owned by the Guptas. Cosatu has called for a probe into the business links of the Guptas and Mr Zuma's family.

In a speech on April 5th designed to drum up union support for the ANC, Cosatu's Mr Vavi claimed that the tripartite alliance was going into next month's polls "with our tails between our legs". More than 1m jobs have been lost since Mr Zuma came to power. Inequality and poverty have increased. The ANC, he said, was "infested with corruption and greed". Earlier, he had talked of South Africa "sitting on a ticking time-bomb", as slum-dwellers staged violent protests against the lack of basic services, while rich black and white "elites" paraded their wealth. If the ANC carries on this way, "very soon we'll have to call someone President [Helen] Zille", he said, referring to the DA's leader.

Some say a "battle for the heart and soul" of the ANC has been declared in the run-up to next year's party conference, held every five years, when a new leadership is to be elected. An opinion poll says 62% of South Africans still back Mr Zuma, but support could slip. Catapulted into power by a disparate coalition of forces united only in its desire to oust the then president, Thabo Mbeki, he has never had a base of his own. Cosatu and the Youth League, who both once said they were ready to "kill" for Mr Zuma, seem to have deserted him. If the ANC does badly in the local elections, he could be on the skids.

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Cote d'Ivoire's new president

The king of Kong

Alassane Ouattara takes charge but can he keep the peace?



Indisputably the main man

"PRESI! Presi!" they cry delightedly, as Alassane Ouattara, at long last their sole and undisputed president, sweeps through the cavernous entrance hall of the Hotel du Golf in Abidjan, Cote d'Ivoire's main city. A lean man, looking far younger than his 69 years, he acknowledges their greeting with a regal wave, as befits a descendant of the Muslim rulers of the great Kong Empire, also known as the Wattara or Ouattara Empire. Lasting from 1710 until 1895, it embraced a diversity of religious groups over a vast area of West Africa, straddling what is now Burkina Faso and Cote d'Ivoire.

Ivorian-born, Mr Ouattara was a child when he moved with his parents to Burkina Faso to complete his schooling. From there, he won a scholarship to study in America, eventually earning a doctorate in economics from the University of Pennsylvania in 1972. Meanwhile, he had begun working for the IMF, eventually rising-between stints at the Central Bank of West African States, based in Senegal-to become a deputy head in 1998. In all, he has spent nearly 50 years of his life abroad. This, together with the fact that, as the king of Kong, his father was of alleged Burkinabe ancestry, has led some of his political opponents to claim that he is not a true Ivorian.

Doubts on other scores persist too. Despite having served as prime minister from 1990 to 1993, at the end of the 33-year reign of Felix Houphouet-Boigny, the country's revered founding president, state television and radio depicted him, during and after the 2010 presidential election, as a rabid Muslim itching to impose *sharia* law. He beat Laurent Gbagbo, the incumbent, but only managed to remove him on April 11th after months of fierce fighting across the country. Some southerners sneer at people such as Mr Ouattara from the north, where they traditionally find servants. Others remember with a shudder his public-sector cuts in the early 1990s that caused many job losses. Where Mr Gbagbo, a southerner, was outgoing and jolly, the new president is at times seen as cold and technocratic.

Mr Ouattara's fans say he is a pragmatic free-marketeer with a cool head and clear ideas. As prime minister, he quickly streamlined the bureaucracy and brought order to chaotic public finances. Michel Camdessus, a former IMF director who made Mr Ouattara one of his deputies, says he has "exceptional integrity, judgment and intellectual rigour" and is "admirably prepared" to return his country, once the region's most prosperous, to the economic eminence it enjoyed in the 1970s.

As for the allegation that Mr Ouattara will personify a north-south division, that is too simple. Ivorian Muslims and Christians readily mix and intermarry. Mr Ouattara, a Muslim by background, is married to a French woman of Jewish descent who is a Catholic convert. Guillaume Soro, his prime minister and leader of the former rebel forces which secured his victory, is also a Catholic.

A lot of wounds to heal

Even before attending to the economy, which is in a parlous state after more than a decade of factional warfare, Mr Ouattara says he wants to focus on peace. He has got off to a fair start, ensuring that Mr Gbagbo was captured alive and unharmed and pledging to set up a South African-style truth-and-reconciliation commission. He is expected to offer a wide-ranging amnesty, though not to Mr Gbagbo himself. Most of the ousted man's generals and ministers have sworn allegiance to the new president. Some have been promised posts in a government of national unity that has previously been mooted.

Still, the wounds-mental and physical-run deep. Sporadic fighting continues. Arms caches are still being found. Neither the leader of the feared pro-Gbagbo Young Patriots militias nor the head of the fiercely loyalist Republican Guard, which protected the former president to the bitter end, have surrendered. Before Mr Ouattara has a chance to start building peace, another bout of fighting cannot be ruled out.

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The River Nile

A dam nuisance

Egypt and Ethiopia quarrel over water



MOST of the water meandering down the lower reaches of the Nile, the world's longest river, comes from the Ethiopian highlands, putting rulers in Addis Ababa, the capital, in a position of unusual power, one they have rarely dared to exploit. But since Egypt, the biggest and most influential consumer of Nile water, is distracted by revolutionary upheaval at home, this may be changing. Ethiopia and the other upstream countries-Burundi, Congo, Kenya, Rwanda, Tanzania and Uganda-have banded together to rewrite a 1959 treaty that favours Egypt.

They may succeed. After decades of strong population growth, Ethiopia has overtaken Egypt as Africa's second-most-numerous nation. The total population of the upstream countries is 240m against 130m for the downstream duo of Egypt (85m) and Sudan (45m), whose 14m southerners will soon be independent and are being courted by both sides.

Ethiopia's prime minister, Meles Zenawi, is determined to dam his bit of the Nile. On April 2nd he laid the foundation for the Grand Millennium Dam. With a planned hydropower capacity of 5.25 gigawatts and a flooded canyon twice as voluminous as the country's largest lake, it is the centrepiece of a plan to increase the country's electricity supply fivefold by 2015.

Mr Meles insists that Egypt will also benefit from the dam, saying it is being offered the chance to buy cheaper power. But he hardly exudes goodwill, accusing Egyptians of trying to undermine Ethiopia's search for funds to build the thing. In any event, says Mr Meles, Ethiopia will push ahead, using "every ounce of our strength, every penny we can save, to complete our programme."

How will Ethiopia pay? Chinese banks are apparently underwriting the cost of turbines and other electrical equipment. That still leaves one of the poorest countries in the world a good $3 billion short. Some engineers think the cost will exceed $4.8 billion. Ethiopians are being urged to subscribe to a bond issue on patriotic grounds. But it is unlikely to generate more than a fraction of the required amount. Neither the World Bank nor private investors are willing to put up the cash, since Ethiopia has failed to create partnerships with power companies in neighbouring countries to which it could sell electricity. The Nile's geology may be favourable for dam building, but the flow of money is not.

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Russia and America

Resetting the stage

An assessment of America's "reset" with Russia suggests that it was a modest policy that has produced modest achievements



IN SEPTEMBER 1863 Russian naval vessels docked in New York and San Francisco to show support for Abraham Lincoln. A few years later, Alexander II won praise from Americans for the sympathy "manifested by your Majesty during our war for the Union". A recent exhibition in Moscow on the tsar who liberated the serfs and the president who emancipated the slaves was marked by a sculpture of the two reformers. Its symbolism for today's reset was unmistakable. But it was made out of plaster and removed once the display of the countries' historic ties was over. Will the reset prove just as temporary?

Both countries consider it a qualified success so far. Two years ago the relationship was in tatters. George Bush's gazing into the eyes of Vladimir Putin, Russia's former (and possibly future) president, had ended in the August 2008 war with Georgia that was seen in Moscow as a proxy fight with America. The main advantage of Mr Bush's successor, Barack Obama, in seeking to reset relations with Mr Putin's successor, Dmitry Medvedev, was that they could hardly get any worse. The aim of the reset was not to change Russia, still less to embrace it, but rather to restore detente in pursuit of America's national interest. And this modest goal has been largely achieved.

The conflict in Georgia remains frozen, but the risk of renewed war has fallen. From Russia's point of view, the expansion of NATO to include Georgia and Ukraine has been halted; warmer relations with America have detoxified relations with Poland and the Baltics; and public lecturing about human rights and democracy has largely stopped. From America's point of view, Russia has become less of a spoiler and more co-operative in several areas of vital concern to America.

Take Afghanistan. Russia and the Central Asian republics have become the main conduit for American troops and their supplies. Two years ago, when only 5% of American supplies went through Russia, its co-operation was largely symbolic. With Pakistan more or less closed, Russia's support has now become crucial: 20% of American cargo to Afghanistan transits through Russia and half America's troops fly over Russia. When American troops eventually leave Afghanistan, their route home will be through Russia.

Russia has also become more helpful over UN sanctions on Iran. It has cancelled the sale of S-300 ground-to-air missiles. In return the Americans have lifted an embargo on the Russian state arms export agency and its associates suspected of transferring sensitive technology to Iran.

Yet the showpiece of the reset-the NewSTART agreement to cut strategic nuclear weapons-was a legacy from the cold war rather than the beginning of something new. Both countries still see each other as adversaries, not partners. This is clear in the dispute over missile defences in Europe. Russia objects to interceptor missiles being sited in Poland, arguing that they could be used against it. In this, it is assuming the system's maximum capability and the worst intent. America suggests sharing information about outside threats but rejects any demand for detailed limitations on the missiles' use, arguing that these might be used to block the missile-defence system's development.

Yet the Russians know they cannot afford another arms race with America. Threatening to place nuclear missiles in Kaliningrad, as Mr Medvedev did two years ago, would end any hopes for the transfer of Western technology. The Russians know that they cannot have good relations with Europe if they have bad ones with America.

To encourage Russia's economic interest in the reset, the Obama administration is pushing hard for Russian membership of the World Trade Organisation, which has been under negotiation for nearly 20 years. Both America and the EU have resolved their bilateral issues. The final stumbling block is Georgia, which has to say yes as well. But Georgia is less interested in regaining access to the Russian market, which it lost in 2006, than in winning trading concessions from America or the EU in return for letting Russia join.

Russian WTO membership would make it easier for the Obama administration to get rid of the anachronistic Jackson-Vanik amendment, which penalised the Soviet Union for its restrictions on emigration. Mr Obama faces a tough fight in Congress, which has to approve permanent normal trade relations with Russia. Some Republicans accuse him of being soft on the Russians, even though the Bush administration kept largely quiet over Russia's brutal policy in Chechnya and again when it arrested Mikhail Khodorkovsky in 2003.

The administration is not naive about Russia. It is well aware of the injustice, corruption and fragility of the country's political system. And it has few illusions about Mr Medvedev's ability to reform it. It knows Mr Medvedev is an intermediary, not an independent decision maker. Yet it prefers to deal with him than with Mr Putin, and it would prefer Mr Medvedev to remain as president next year.

The Americans know they cannot effect change inside Russia. Yet by concentrating on their own national interests, they may achieve more than any number of inflammatory public statements. The interests of the Russian elite are deeply rooted in the West. America cannot stop Russian officials abusing the judicial system at home, but it can try to stop them reaping the benefits of their corruption in the West. Its list of Russian officials barred from entering the United States has not been made public, but some government figures prefer not to apply for a visa to avoid the humiliation of being rejected.

By far the most serious measure in fighting kleptocracy in Russia has been Mr Obama's revamping of the Foreign Corruption Practices Act. (Britain, where many Russian officials and oligarchs park assets, is also about to pass a tough new anti-bribery law.) Stopping foreign companies paying or receiving bribes in Russia and pursuing corrupt officials and firms in the West may be the best way of advancing democracy in Russia. The reset has reached its limits, but the future course of Russia's relations with America and the West will be set less by arms-control treaties and more by developments inside Russia itself.

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Germany's local finances

Hundreds of mini-Greeces

The economy booms, but many municipalities are strapped for cash



THE heart of Wuppertal is the Schwebebahn, a trolley dangling from a rail above the Wupper river. It is the lifeline of this river-hugging city of 350,000, Germany's 17th-largest. Perhaps because it is unique, it is also expensive. The 110-year-old contraption is undergoing a euro500m ($715m) modernisation; it drains euro27m a year from the city's budget. "Wuppertal is unthinkable without the Schwebebahn," says the mayor, Peter Jung. "Nobody talks about whether it makes economic sense."

Wuppertal has other glories, including an orchestra and a dance troupe. It embodies the belief that high culture belongs in the provinces as much as in bigger cities. But Wuppertal is poor. Textile production shrivelled by the 1970s. High earners left; needy immigrants arrived. Wuppertal now has a debt stock of euro2 billion and pays its way with an overdraft. If it were a company, "it would have to file for bankruptcy", wrote its treasurer recently.

Germany's 11,000-odd municipalities had a deficit of euro7.7 billion last year, the second-highest ever. The pain is uneven. Towns in the rich south were hit by recession. In other regions, including parts of North Rhine-Westphalia (NRW), the slump came on top of long industrial decline and years of fiscal rot. Municipalities face a "debt spiral" as interest rates start rising, says Martin Junkernheinrich of the University of Kaiserslautern.

Mayors think of municipalities as cradles of democracy where citizens meet government close up. They build and maintain schools, repair streets and help the jobless and the elderly. They account for almost two-thirds of public investment. Most of what the 16 states decide localities are forced to execute, notes Torsten Albig, mayor of Kiel. Yet though a mayor may matter more to citizens than a state premier, voter turnout is higher in state elections. Towns have financial and political autonomy but no "state quality" (except for indebted Berlin, Bremen and Hamburg, which are states). They are like branches of a head office that dictates most spending and provides or regulates most revenue. "Our problem is that we can decide very little ourselves," says Monika Kuban of the German Association of Cities.

This saps vitality from public life. Citizens have little local influence; politicians set their sights on state capitals or Berlin. City halls no longer launch political careers, "a problem for the political culture as a whole", says Mr Junkernheinrich. Federal, state and local authorities tap the same sources of revenue, which makes tax reform harder. Citizens see no connection between local services and tax bills. The government's upper echelons have squeezed municipalities. They dream up new benefits and then oblige towns to provide them. In NRW local social spending rose by 274% between 1980 and 2006, whereas revenue went up only by 104%. Little is left for discretionary spending. NRW towns spend euro707 per person on social services and invest just euro165. In richer Baden-Wurttemberg social spending is euro403 per head and investment is euro359.

This inequality may widen. Trade tax, a corporate tax that is the biggest source of local revenue, is rebounding with the economy. That helps towns with thriving enterprises more than those with fewer firms and harder social problems. Frankfurt has three times the population of Kiel, but 12 times the trade-tax revenue, notes Mr Albig. Profligate

municipalities make things worse. The Ruhr is spangled with swimming pools. Wuppertal's orchestra has a rival that plays in nearby Solingen and Remscheid. A merger might save cash, but musicians are municipal employees who cannot be sacked. It would be cheaper to modernise the Schwebebahn with driverless cars, but Wuppertalers will not hear of it. Self-denial is not easy, especially when the federal constitution endorses "equal living conditions".

Some of the excess is pure fat. Municipal councils are "self-service cafeterias for political parties," snarls Magnus Staehler, who as mayor paid off Langenfeld's debt. Senior jobs at city-owned enterprises come with lavish perks. State watchdogs should police local finances. When they are tough, as in Bavaria and Saxony, towns have no overdraft problem. In NRW and Rhineland-Palatinate they are weak.

The federal government is willing to offer help in return for self-help. A commission set up by the finance minister, Wolfgang SchÃ¤uble, offered the prospect of relief from social spending and suffocating quality "standards" for local services. In return, Mr SchÃ¤uble wanted to scrap the trade tax and replace it in part with a municipal right to vary income tax. But mayors would prefer to annoy companies than voters. Even so, in February the federal government agreed to assume payment of basic pensions to the old and infirm, saving municipalities euro12 billion by 2015.

Three states have set up funds to lower debt repayments in exchange for spending reforms. NRW may follow suit. If richer towns help, says Mr Jung, Wuppertal can balance its budget by 2015. Reformers dream of bolder measures: towns raising and spending their own revenues, fewer states, more responsibilities transferred down. "Real reform would require dramatic changes in federal structures," says Mr Albig. Yet this looks unlikely.

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Croatia and Serbia

Protest days

Angry demonstrations reflect some deep-seated grievances

PEOPLE in Croatia are angry. This week they took to the streets of Zagreb to protest against the conviction of two generals by the UN war-crimes tribunal in The Hague. The public mood in the country had been ugly for months. But the 24-year sentence meted out to General Ante Gotovina and the 18-year one given to General Mladen Markac still caused a huge shock. In August 1995 both had played a big part pushing secessionist Serbs out of their self-proclaimed Krajina republic.

Few Croats deny that crimes were committed then. But the tribunal found that the generals were part of a criminal enterprise whose leaders included Croatia's then president, Franjo Tudjman. Many Croats feel that what they saw as the heroic liberation of Croatian land has now been tarnished. The government led by Jadranka Kosor is flailing in response. It seems to have assumed that the generals would get short sentences or even be acquitted. Now it says it will do all it can to reverse the convictions on appeal.

Mrs Kosor still insists that her aim is to finish talks on joining the European Union this summer. But polls find many Croats feeling little but antipathy towards the EU. That may change before a referendum. But the war-crimes tribunal has further undermined support, since co-operating with it by catching General Gotovina was one key Brussels demand. Ines Sabalic, a Croatian journalist, says that Croats feel that the EU is constantly judging their country as not good enough. Some now retort: not good enough for what?

In March Bojan Milkovic, head of INA, Croatia's national oil giant, was arrested on corruption charges. He was only the latest victim of an anti-corruption drive whose biggest scalp so far is Ivo Sanader, a former Croatian prime minister who was arrested in December. Mr Sanader came from the Dalmatian port of Split; Mr Gotovina was head of Split's military district in 1995. Today Split is seeing protests against plans to develop the forested Marjan park area near to the city, in which both the town's rich mayor and his girlfriend have financial interests.

Locals are also angry about rising regional disparities. Thirty years ago, says Petar Filipic, a Croatian economist, GDP per head in Zagreb was only 10% bigger than in Split. Now the gap has widened to over 100%. Manufacturing industry, which included shipbuilding, once made up a third of the local economy. Today it is a fifth and falling. That industry is becoming just a memory in Split would not matter if new high-quality jobs were being created to take its place, but they are not.

Similar grievances are in evidence over the border, in Serbia. On April 16th Serbs, led by the opposition leader, the hunger-striking Tomislav Nikolic, rallied in Belgrade to demand new elections. Many voters dislike Mr Nikolic, whose party broke from an extreme nationalist one in which he was deputy to a leader who once promised to gouge out Croat eyes with a rusty spoon. Now, angry with a government that many see as helping a few to get rich but doing nothing for ordinary folk, more Serbs are ready to back him. Populism is on the rise across the Balkans.

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Finland's election

A Suomi shake-up

A populist party creates an upset in Finland-and in the European Union



We're True Finns, we don't care

THE biggest surprise of the Finnish election was that it was such a surprise. For months, polls had predicted big gains for the populist True Finns, but when the tally came up on April 17th Timo Soini, the party's leader, looked like a man who could not believe his luck. The True Finns shot up from 4% to 19% of the vote, and from five to 39 seats. The backlash against the big three main parties stunned politicians and commentators alike.

The reverberations rippled far, as European Union bureaucrats fretted about the impact on the planned Portuguese bail-out. The markets swiftly marked down the euro. That is because the result creates a fighting chance of a profoundly anti-EU, anti-euro, anti-immigrant party joining Finland's next government.

No single party (or even pair of parties) has enough seats for a majority. Finnish tradition prefers majority to minority coalitions and ignores left-right divisions to forge a consensus with two or three of the big parties. The Centre Party of the outgoing prime minister, Mari Kiviniemi, fell to fourth place and will not be among them. The conservative pro-EU National Coalition Party (NCP), which came first with 44 seats, will be in charge; its leader, Jyrki Katainen, will be the next prime minister. Talks with the Social Democrats (42 seats) are under way. But pressure to include the True Finns is immense. "It will be very difficult to keep a party with 39 seats out of government," Alexander Stubb, the NCP foreign minister, said on April 18th. "If we can find compromises, we can have the True Finns in government."

Formal negotiations will start after Easter. With luck, says Mr Stubb, a government could be in place by May 9th, but he acknowledges this timetable is optimistic. Several commentators say the negotiations could take weeks or even months, which will make Brussels nervous. As well as disagreeing on euro-zone bail-outs, the parties are at odds on tax, pension age, foreign aid and immigration.

Both NCP men play down outsiders' fears. "We Finns are very pragmatic and responsible," Mr Stubb insists. Mr Katainen says, "this is a challenging time but it is the politicians' job to solve problems. We will be fine."

The worry for the EU is what the new government will do about euro-zone bail-outs such as the planned one for Portugal. Bail-outs require unanimity (Finland also needs parliamentary approval to participate), giving the country a veto. Mr Soini went to the polls pledging to block future bail-outs. It is hard to see how he can back down if his party is in government.

The NCP believes that bail-outs are in Finland's own interests. The Social Democrats might agree if bankers and investors share the pain. Given consensus-loving Finnish politics, a formula to allow the Portuguese bail-out may still be found. Mr Stubb claims that "80% of Finns voted in favour of Europe and in favour of bail-outs." Pasi Saukkonen, a political scientist at Helsinki University, is pragmatic too. It is, he says, like EU referendums in Denmark and Ireland, when politicians from small countries wielded immense influence. Things usually work out in the end.

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Charlemagne

The trade war within

Calls for fairer trade should not turn into an excuse for protectionism



ONE cause for relief in the financial crisis is that, unlike in 1930s, the world has avoided a destructive protectionist war. The European Union has played its part by enforcing internal competition rules and promoting a multitude of free-trade deals. Last year it signed a pact with South Korea removing duties from most goods. It has just initialled a deal with Colombia and Peru. In theory at least, big trade accords are in the works with India, the Mercosur group, Canada, Malaysia and Singapore.

So the future of free trade is assured? Not quite. The battle in Europe between free traders (mostly in the north) and protectionists (mostly in the south) never ceases. One test will be the EU's revision of trade concessions for developing countries known as the generalised system of preferences (GSP). The EU boasts that this is the world's largest set of unilateral trade privileges for poor countries. It cuts or scraps tariffs on most products, helping 176 countries and territories. But the word is that next month the European Commission will propose halving this number. The cull could include such big exporters as Brazil, now seen as a competitor; oil- and gas-rich countries like Russia and Saudi Arabia that still get special treatment; better-off African countries, including South Africa; and the dependencies of rich countries, for instance Guam (America) and the Falklands (Britain).

"Why should we offer concessions to countries that are richer than some members of the European Union?" asks one Eurocrat. There are incongruities: Saudis are about twice as rich per person as Bulgarians. Yet the narrowing of GSP is a sign of troubled times, with Europe growing more fretful about its decline. And the danger is that an overdue revision of GSP may turn into an attempt to roll back trade liberalisation. Few European leaders admit to being protectionist; most pay lip service to free trade. But few make the full case that one benefit of free trade is cheaper imports, which hold down prices for consumers and governments alike, make domestic industries more competitive and avoid wasting resources on dying industries. In truth, open trade is a health tonic, whereas many look on it as a poison for domestic producers. That southern economies are both most vulnerable to global trade and most weakened by the economic and sovereign-debt crises makes defending free trade even harder.

Hence a new Brussels buzzword: "reciprocity". This first appeared in a summit communique in September, to the delight of France and the concern of Britain. Its meaning is fuzzy. But one sign of change is the commission's call for new laws to exclude China from Europe's public-procurement tenders if it does not allow similar access at home. Another is the revision of GSP. On present plans the trade commissioner, Karel De Gucht, a Belgian liberal, will limit GSP to the neediest states; stronger countries would be pushed to sign free-trade agreements that give reciprocal access to Europe, or submit to demands on human rights and labour practices. "The days of buying a round of drinks for everyone in the pub are over," comments an official.

The EU's system of preferences is split into three. The standard GSP reduces or removes tariffs on two-thirds of import categories (on top of a quarter that are already duty-free under world-trade rules). Fifteen countries get better treatment under "GSP Plus". This slightly expands the list of goods and grants duty-free access to all products on it. In return beneficiaries must sign up to 27 different international conventions. The poorest 49 countries in the world can export "everything but arms" free of duty.

Mr De Gucht wants to squeeze GSP in two ways: excluding those ranked by the World Bank as upper middle-income (this already applies to GSP Plus) and removing those that have separate free-trade agreements with the EU. To compensate, he would expand GSP Plus so that Pakistan and the Philippines could be eligible. For countries like Brazil and Argentina (which depend on GSP for about half their exports to the EU), the lost privileges should be made up, even surpassed, by a future trade deal. What if the talks fail? Too bad, say Eurocrats; one aim of the reform is to create a bigger incentive for trade accords. The long-term losers are likely to be a mixed bag of middle-income countries that have little or no prospect of a free-trade accord, such as Gabon, Kazakhstan and Venezuela.

Reciprocal or regressive?

All this will cause uproar, even within the commission. Some EU members will defend their friends; think of Spain's ties to Latin America. Others worry that a bigger GSP Plus may endanger their producers (Portugal is against Pakistani bedsheet-makers, Italy resists Filipino tuna exporters). Still others want to use trade policy-a domain fully in the hands of Brussels-to pursue other aims, such as curbing climate change. The strongest pressure comes from those wanting to turn the screws on China. Some call for a clause to exclude countries from GSP if they block exports-a thinly veiled retaliation for China's restrictions on the sale of rare-earths that are vital for several high-tech industries.

Europe must beware of the reciprocity it pursues. Mutual opening of markets makes sense; mutual raising of barriers does not. A better response to the rare-earths shortage would be to find other sources or recycle existing stocks. For China GSP is now insignificant, covering less than 1% of its exports to the EU. Trade access is not a precise enough weapon to deploy for other goals. And does Europe really want a battle with China when several euro-zone countries are begging it to buy their bonds? Multilateral deals, above all a conclusion of the World Trade Organisation's Doha round, would achieve more. If a revised GSP focuses on the world's poorest countries, it should preserve its liberalising spirit by widening the goods covered, notably to agriculture-where EU protectionism is at its most egregious.

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Labour under Ed Miliband

In the red corner

The leader of the opposition has made some progress, but is yet to look like a plausible prime minister

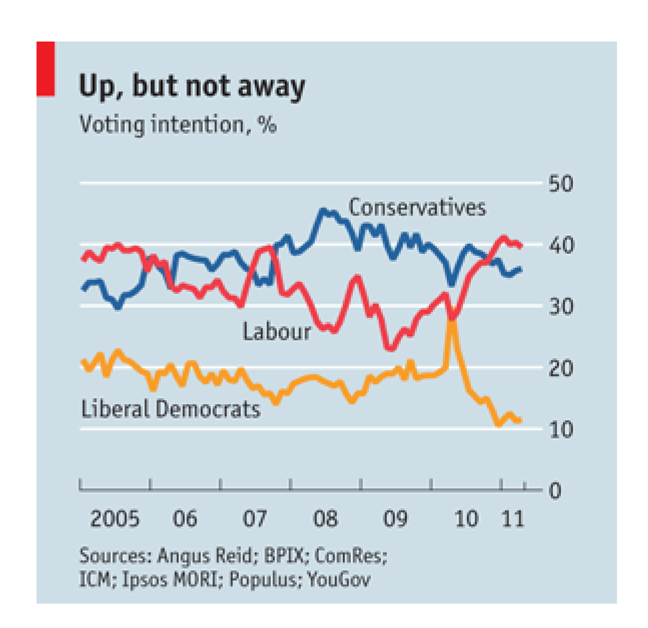


EVEN if Ed Miliband and other champions of the alternative vote (AV) fail to persuade Britons to change their electoral system on May 5th, it is likely to be a good day for the leader of the opposition. In local elections held concurrently with the AV referendum, his Labour Party is likely to make gains at the expense of both the Conservatives and the Liberal Democrats, especially in the north of England. It may also return to power in Scotland and win enough seats to govern alone in Wales.

These triumphs may be par for the course; after all, the government is as unpopular as incumbents in dismal economic times tend to be. But they will not be the only examples of progress made by Mr Miliband since his slim and surprising victory over his brother, David, for the Labour leadership last September.

After some batterings at the hands of David Cameron, he is now a solid parliamentary performer, often riling the prime minister. His kitchen cabinet has been improved by the addition of some tenacious journalists, who have augmented his public profile and sharpened his attacks on the coalition. His shadow cabinet looks better than it did before a reshuffle in January: Ed Balls is a combative shadow chancellor; Douglas Alexander, the shadow foreign secretary, has an eye for the centre ground.

Above all, the divisions that many thought would afflict Labour have not materialised. True, MPs on the Blairite wing of the party, who backed the elder Miliband, voice the popular criticisms of their leader: too left-wing, chronically adenoidal, tainted by association with Gordon Brown, the former chancellor and prime minister whom he served as an aide and ally. But they do so privately. A party that gave Neil Kinnock two cracks at winning a general election is unlikely to cashier Mr Miliband before he contests one.



That election is probably four years away. Mr Miliband has few policies-those are being hatched in a series of reviews under the watch of Liam Byrne, a shadow cabinet member-but he has a clearer political strategy than he is given credit for. His advisers point out that most of the votes Labour lost during its 13 years in power were from low- and middle-income earners, not the better-off folk who sometimes unduly captivated New Labour. So what critics disparage as left-wing pandering-such as Mr Miliband's opposition to spending cuts, and his enthusiasm for higher taxes on the rich-is in fact a pragmatic pitch to the "squeezed middle".

Despite all this, members of the coalition who smiled when Mr Miliband became Labour leader remain eminently relaxed about their opponent. For all the government's recent agonies, Labour has a poll lead in the single figures (see chart), and as low as two percentage points in some surveys. The Lib Dems have recovered a bit from their nadir of last autumn, and the Tories have hardly fallen from the 36% they won at last May's election.

Two main criticisms continue to dog Mr Miliband. The first is that he really is "Red Ed". Doubters think he overrates the appetite for social democracy among middle-income people, a misapprehension born of a life spent in left-wing bubbles, from the Marxist household he grew up in to the climate-change department where he thrilled greens with his ardour.

It is telling that he has deplored Labour's failure to regulate financial services properly and to reduce inequality-but not the fact that it ran a fiscal deficit after 15 years of economic growth. Voters think he is to the left of his party. Only 11% think he is prepared to take "tough and unpopular decisions". Mr Miliband is often accused of failing to challenge his own side-unlike his brother, who as foreign secretary defended the Iraq war against the left's rage.

Still, Mr Miliband can take steps towards the centre over time. The Tories are themselves seen as some way to the right. But his second, and perhaps less soluble, problem is more personal than ideological. He has not struck voters as a plausible prime minister. Mr Cameron is preferred as a national leader, something often attributed to his opponent's presentational problems and perceived immaturity.

Mr Miliband's speech to a union rally last month, in which he excitedly compared the campaign against cuts to that against apartheid, made him look hopelessly jejune. In a subsequent YouGov poll, 47% of respondents said he was not up to the job of Labour leader, let alone prime minister, and only 27% thought he was. The coalition increasingly seeks to paint Mr Miliband as a lightweight or a student politician rather than as a socialist.

Of course Mr Miliband can grow into the role, but he must hurry. Both main parties know from harsh experience that voters often make their minds up about a leader of the opposition very quickly. Lord Kinnock and his predecessor, Michael Foot, never shifted early perceptions that they were not quite prime ministerial. Neither did William Hague, the former Tory leader and now foreign secretary.

In the coming years, spending cuts will bite, the economy will remain sluggish and strains within the coalition will intensify. Mr Miliband must use this time to fix negative perceptions of himself and his party. He must talk to audiences outside his comfort zone: his recent speech to a business crowd was a start. He must revive Labour's economic credibility, if not by apologising for overspending, then at least by elucidating which cuts he would make. And he must be alert to the less obvious threat of being seen as an enemy of people power in the public services. If the coalition's decentralising reforms to schools, police and the like come to be accepted as part of the furniture, as Margaret Thatcher's privatisations quickly were, Labour's opposition to them could look redundant and Luddite. There is work to do. The probable joy of May 5th must not distract him from it.

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Paying for higher education

Race to the top

Why tuition fees are soaring and what to do about it



Was it worth the price?

THE unseemly scramble by most English universities to raise annual tuition fees to the maximum level permitted by the state, pound9,000 ($14,500) from September 2012, is a headache for the coalition government. Not only does it make university education in England as expensive as in America, a burden that will in many cases be borne by the taxpayer, but it also seems to rule out creating a genuine market in higher education, with institutions competing on price. Ministers had thought that universities charging the top whack would be exceptional. Alas, when they submitted their final plans on April 19th, it was clear that most had aimed high.

Under the government scheme put forward last year, English undergraduates will borrow from the state at modest interest rates to cover the costs of their tuition, repaying the debt once they have graduated and are earning more than pound21,000 a year. Ministers expect that 30% of the money lent will never be repaid. Asking all taxpayers to fund what only some consume has pernicious effects: it drives up demand for higher education even when prices become eye-watering. In England tuition fees will have risen almost seven-fold over the decade to 2012, yet demand so far has robustly outstripped supply. What can be learned from experience elsewhere?

In America, where government has played only a modest role in funding university education, institutions for the most part charge what they like. A market has emerged in which students can choose between top-dollar and low-cost institutions. Harvard University, which consistently tops the league tables on cost, charges $38,000 a year for tuition (albeit with generous scholarships) whereas the University of Houston charges local students $8,500, for example.

Yet the unregulated, largely unsubsidised market is not working perfectly: academic inflation has greatly outstripped the rising cost of housing, labour and consumer goods. Students and their families are becoming ever more reliant on loans, both commercial and state-backed, and default rates are climbing. Because a university education is increasingly seen as the threshold to a decently paid job, young people may choose among different providers of it but are not free to rule it out altogether. The pressure on prices is upward.

In Britain, too, many see a university degree as an essential first step into the world of work these days. But another academic market offers a useful lesson. Curiously, the tuition fees that undergraduates in England will pay are not only consistently high, they are also mostly more expensive than the unregulated fees charged to postgraduates at the same institutions. According to Mike Reddin, who collects information on tuition fees, some 85% of English universities currently offer master's degrees for less than pound9,000.

Postgraduate prices vary both among institutions and by subject, so students can genuinely shop around. Universities charge according to the perceived earning power the course bestows: those seeking to enter a lucrative career must pay

through the nose for a qualification thought to entice employers, whereas those who intend to become dusty dons are offered bargains. Being a whizz at maths will gain you entry to both a master's in finance and a master's in theoretical physics, but Imperial College London charges pound27,500 for the former and pound5,230 for the latter. The costs of providing the courses are roughly the same.

So far, the state has avoided subsidising master's degrees and doctorates, and so has set no limits on what universities can charge for them. People who embark on higher degrees take out a commercial bank loan, find an indulgent sponsor or earn the money first. That has focused attention on making them affordable.

Undergraduate fees, however, are political dynamite, so the withdrawal of state subsidies to dent demand and thus reduce price is not one that will appeal. But demand is only half of the equation. David Willetts, the universities minister, hopes to cut costs by increasing supply, encouraging new entrants into the market. In this he has scored a modest victory: on April 13th BPP, a company training accountants and lawyers to which Mr Willetts granted university-college status last year, announced that it would offer cheap law degrees to students enrolled at New College, Swindon. It may be years before deregulated providers of higher education exert discipline over the old-timers, but it is a start.

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House prices

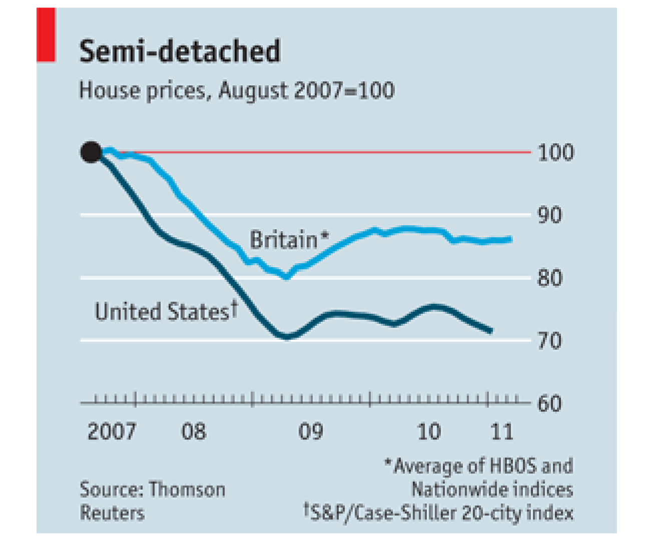
Unfinished bust

The froth in the ritzier parts of London conceals a fragile national market



Billionaires' bolthole

EARLIER this month a London flat was sold to Rinat Akhmetov, a Ukrainian businessman, for pound136.4m. It was a British record. Mr Akhmetov's new home takes up the top three floors of One Hyde Park, a block of luxury flats in Knightsbridge designed by Richard Rogers, a celebrated British architect. Sales at the development are expected to top pound1 billion. Buyers from Asia and the Middle East are said to be keen to secure an investment (or a bolthole) in west London. The prices paid are staggering: it is as if the rich world's devastating housing bust hadn't happened.



Some hope the buoyancy at the top end of the London market will lead to a broader recovery. British house prices have proved more resilient than America's, which adds to the case for optimism. Prices at their lowest point were down by only a fifth from their level at the start of the credit crunch in August 2007. They have since recovered, and are now around 15% below their peak. Home prices in 20 big American cities, by contrast, fell farther and have struggled to make up ground (see chart).

The braver sort of investor might sense an opportunity. But beyond the fancier bits of London, the national market still looks rather frail. House prices have barely risen in the past six months. Would-be buyers are finding it hard to raise finance, because banks are worried that prices will fall and are demanding heftier deposits. The number of mortgages approved for house purchase is around half the long-run average. Far fewer homes are changing hands than at the market's peak.

Nor is housing cheap. Homes are 30% overvalued against the long-run ratio of prices to rents, the gauge used in *The Economist*'s quarterly round-up of global house prices. On that basis, America's housing market is close to fair value, but a handful of other markets (including China and Hong Kong) are starting to look pricey. London's hotspots are in part an outgrowth of this emerging-market demand.



The varying fortunes of Britain and America reflect the peculiarities of each market. There have been fewer forced sellers in Britain. That is in part because unemployment rose less sharply. It is also because mortgages in many American states are "non-recourse": when a loan turns sour, a lender can seize the property but has no rights over the borrower's other assets or income. So if house prices fall below the value of the mortgage, a householder can walk away from his debt. Many have done so: fire sales of seized homes have weighed heavily on prices. Fewer homes have been dumped onto the market in Britain, where borrowers cannot escape debt so easily.

Other financial quirks proved critical too. America's housing boom was fuelled by subprime borrowers, more likely than others to struggle with mortgage payments. Britain had fewer of those. And because most British mortgages are at variable interest rates, or are fixed for only a few years, sharp cuts in rates in Britain eased the burden on debtors more than rate cuts did in America, where many more mortgages are at fixed rates. Total interest payments on household debt in Britain fell to 7% of disposable income at the end of last year, the lowest level since 2003. Banks have been lenient, and repossessions have been far rarer than feared.

But interest rates will not always be so low. The Bank of England's monetary-policy committee has been agonising for months over whether to raise them. Rate increases and a weak jobs market will uncover the "latent distress" in the housing market, says Paul Diggle, of Capital Economics, a consultancy. He expects a second round of price declines: a further 20%

fall would bring prices back to their long-run average against earnings. London is Britain's most overvalued region, says Mr Diggle. It cannot defy gravity forever.

What would such a prospect imply for a still-fragile economic recovery? Purists say that a further drop in house prices would merely shuffle wealth around. Homeowners would suffer, but those saving to buy a home would benefit. Reality is messier. Many householders have onerous debts, and would cut spending abruptly should prices plunge. For this reason, the housing market is likely to determine interest-rate decisions, not the other way round. If rate-setters prove cautious, house prices will take longer to reach bottom, but they are likely to fall all the same.

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The phone-hacking scandal

Clawing their way out of it

The courts will decide the price of ending the affair

HOW much is an illegal phone hack worth if you're on the other end of it? Fleet Street and some of its famous victims are about to find out, as the scandal at the *News of the World* reaches what one source calls "the beginning of the end".

It is a story that began with the revelation in 2006 that a reporter and a private investigator had been siphoning information illicitly from the voicemails of celebrity and royal targets. Later disclosures lifted the lid on tabloid tactics in the drive to outsell rivals. So far four journalists have been dismissed, suspended or put on leave at Britain's top-selling Sunday newspaper. All have been questioned by police. And more arrests are expected.

This month News International, which groups Rupert Murdoch's British newspaper interests, dropped its original defence that phone hacking at the *News of the World* was an isolated case. It has expressed a modest degree of contrition and agreed to compensate those who can prove that their privacy was invaded.

The Metropolitan Police, too, have pulled up their investigatory socks. Their reluctance early on to pursue leads and notify potential targets aroused suspicions that some at the Met were too close to tabloid journalists. Rebekah Brooks, chief executive of News International and a former *News of the World* and *Sun* editor, admitted to a parliamentary committee in 2003 that papers had paid the police for information, though she now says she does not know details of any payments. The Met has confirmed that it is considering a belated full inquiry into the matter.

In a sign that Mr Murdoch hopes to draw the line quickly under some claims, News International is offering Sienna Miller, an actress, pound100,000 in compensation for hacking her phone and for other invasions of her privacy, including harassment. Company sources say the total paid to all victims could reach pound20m. Already 91 potential targets have been identified, and the police say there may be more.

Charlotte Harris of the law firm Mishcon de Reya, which represents several of the people seeking damages, believes the pound20m figure is on the low side: "We don't know how many people were affected and what the degree of invasion of privacy was in each case." British courts seem to award lower damages in privacy cases than in libel cases, though it is hard to find exact comparisons. Privacy law in Britain is a late arrival, derived mainly from the European Convention on Human Rights and built up through judicial interpretation. The size of the awards against the *News of the World* will depend on the view taken by Sir Geoffrey Vos, a High Court judge, of the actual damage to hacking victims, as well as of the intrusion itself, when he hears test cases later this year.

At the heart of the brouhaha over the hacking is uncertainty over the role of Britain's famously robust press. Are the tabloids a rough and ready Cerberus, guarding the public from malpractice and deceit, and keeping elites on their toes? Or do they simply feed prurient appetites at the expense of private lives? The rise in "super-injunctions"-temporary gags applied to news outlets at the behest of a court, to prevent publication of a story pending a full court hearing-shows that judges, at any rate, often defend the latter position.

Uppermost in Mr Murdoch's mind, as the phone-hacking detritus clings to his business, is the fate of his bid to take full control of BSkyB, the satellite TV company in which he is now the largest shareholder. It has been referred to the telecommunications regulator, Ofcom, and Jeremy Hunt, the culture secretary, has made it clear that the shenanigans at Wapping are seen as distinct from the question of whether the deal will endanger broadcasting plurality.

Whatever happens to the hapless phone sleuths at the *News of the World*, few doubt that the pressure for tighter regulation wll grow: Ed Miliband, the Labour leader, is the latest to call for at least a review of press practices. And even some journalists wonder if a new statute on privacy might be simpler than the accretion of judge-made law that has grown up in recent years. Hacks, beware of hacking: no lasting good has come of it.

Music stores

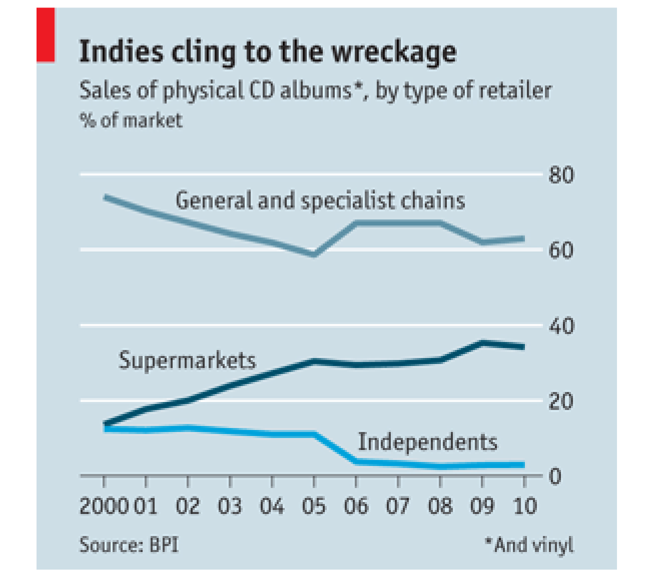
Their master's voice

Independents need the industry's last retailing giant to flourish



MUSIC retailing has had a curious April. HMV Group, owners of the last surviving high-street music chain and linchpin of the business, produced its third profits warning of the year as conditions on the high street "remained difficult". Yet on April 16th hundreds of bleary-eyed shoppers across the country queued from sunrise outside HMV's independently owned competitors. They were waiting for the one-off releases on sale to mark Record Store Day, a "celebration of music" organised by independent music shops, with over a thousand outlets participating around the world.

The popularity of this event suggests that small specialist music sellers are healthy. Some are, but they need their sickly mass-market opponent to recover. Over the past decade the way Britons buy music has changed radically, and this has hurt both chain stores and independents.



Millions now purchase chart CDs, often on impulse, when they are out shopping for groceries: supermarkets accounted for over a third of CD album sales last year, up from just over an eighth in 2000 (see chart). Tesco alone receives more than pound1 of every pound10 spent on music in Britain. Most of all, the internet has transformed buying patterns. Home delivery accounted for a quarter of album sales in 2010, an estimated half of which were from Amazon, the internet giant. Digital downloads have all but wiped out the singles market, for years the lifeblood of local record shops: 160m songs were downloaded last year (most for less than pound1), but only 2m physical singles were sold, down from 44m in 2002.

When the economy weakened, these changes helped kill off three high-street general retailers: Woolworths, Zavvi (formerly Virgin Megastore) and Borders. The number of indies also plummeted. The Entertainment Retailers Association says there were 281 of them at the last count, down from 578 in 2006. Those that focused on chart music closed first, and many more lacked the resources or the will to renew leases first taken on in the early 1970s.

But some independents are thriving. They embraced the internet but avoided the distraction of digital downloads. Half the turnover of Manchester's Piccadilly Records comes from online sales; Philippa Jarman, its co-owner, says that "one of our shrewdest decisions was to stick to physical rather than digital downloads."

Concentrating on physical products left independents well placed to capitalise on the recent revival in vinyl, too. Surviving independents highlight the importance of having staff who are immersed in the music scene, so that they act as a trusted filter in an industry with millions of products on offer. The most successful stores have used this expertise to create a sense of community far removed from the stereotypical shop staffed by snobbish music nerds. Rough Trade East, an independent in London, has a stage for in-store gigs and a coffee shop, selling the experience of visiting a shop dedicated to music as much as the recorded product itself.

By contrast, HMV has diversified into clothing, gaming and selling tickets to events, cutting its dependence on CDs but diluting its distinctiveness. With its shares now around 10p, down from 85p a year ago, the firm may sell its book chain, Waterstone's, and close at least 40 HMV stores. The four biggest record labels are even considering supplying the retailer with non-chart music on a "sale or return" basis, freeing cash to reduce its pound130m debt.

The labels need HMV to survive in order to keep lucrative non-chart music on the high street. So too do the independents, for if HMV were to fail, the labels would cut back their operations, drastically shrinking the market. HMV's logo famously shows a terrier listening intently to a gramophone; even the indies hope the top dog regains its form.

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Bagehot

No more royal weddings

Our columnist's wedding present for Prince William and Catherine Middleton: a republic



IN A few days Prince William, the 28-year-old heir-but-one to the British throne, will marry Catherine Middleton, a 29-year-old university chum whose parents run a successful business selling party goods. In central London the machinery of state flummery is in motion. Along the Mall, Union flags are being hung from crown-topped poles, palace railings gleam with fresh paint and plume-helmeted horse guards rehearse in the parks. A grandstand for television anchors has been erected opposite Buckingham Palace: hours of special programming loom.

The mood of the British public is harder to gauge. The press is full of dresses and hats, but also of opinion polls saying that barely a half of the British are interested in the wedding, and only a third are certain to watch it on television. Councils report a north-south divide in applications to hold street parties-and far fewer overall than when Prince William's parents wed in 1981.

What is going on? Most simply, experience has taught the British that to cheer a royal wedding today is to risk feeling a chump tomorrow. After decades of royal divorces and marital wars conducted by tabloid leak or tell-all book, sighing over a new princely union requires a Zsa Zsa Gabor-like leap of faith.

Perhaps, optimists might also hope, the British feel a twinge of collective remorse over the short, pitilessly scrutinised life of Prince William's mother, Diana, Princess of Wales. Perhaps the public simply want to give two young people some space.

Optimists make a plausible case that Prince William will thrive if he embodies his mother's impatience with protocol and empathy with suffering, and learns from the middle-class warmth of Miss Middleton's childhood, or the rise of her mother's family from poverty only two generations ago. A big dose of normality, it is agreed, will do the monarchy wonders.

Bagehot, a pessimist, disagrees. On paper, the monarchy looks pretty safe: support for a republic remains constant at about 20%. But the question-Do you want to keep the monarchy?-is too crude. The queen and her offspring are different things at once: they are "a family on the throne", to quote the original Bagehot, embodying national (and Commonwealth) unity and continuity. Though the job description has evolved to include displays of human emotion, being a monarch still removes the queen far from normal experience. After nearly 60 years, she might as well be a unicorn or other mythical beast. At the same time, the royal family does touch the real world, albeit the part of it inhabited by what remains of the landed upper classes: a life of moors and deer-stalking, of summers under Scottish rain, dogs and horses, the church, the armed forces, the same few boarding schools and the right sort of nightclubs. That is more perilous territory: the British, in the main, dislike such people.

To put it plainly: if the royal family are like unicorns-existing outside society-their place is reasonably secure. If they sit atop high society, they are unsafe. Though her father was an earl, Diana's loathing for horses, summers in Balmoral and the rest was a key plank of her case that she was a modern princess and a better parent than her husband, the Prince of

Wales. She took her sons to theme parks in anoraks while their father took them, dressed in tweed, to kill animals. She spent her summers in the sun, or with film stars. She was dazzlingly famous more than she was posh, and she was adored.

Prince William, it can be countered, may share his father's tastes for country life and field sports, but he spends much of his time in royal unicorn mode, or something like it. He is an officer in the army, the navy and the air force, popping away from his helicopter rescue squadron to represent Britain's bid for the football World Cup. This is not a life open to any other 28-year-old. Short of putting Prince William in a super-hero's cape, the royal household could scarcely do better. Surely, it is argued, a middle-class wife can only extend his appeal. Maybe: marrying a duke's daughter might have been riskier. But what if all and any contact with the class system is lethal to today's royal family?

Daylight and magic

Miss Middleton's journey from home-counties affluence to palace, via the right sort of boarding school, may inspire some as a story of social mobility. It inspires others to vitriol: a writer in the *Times* recently described hers as a tale of "shiny new money systematically raising a girl so perfectly to a prince's eye level that she is virtually indistinguishable from the real thing."

Get the British started on this sort of nonsense, and it does not stop. Newspapers filled recently with suspicious pieces asking why Prince William would not be wearing a wedding ring. He does not like jewellery, palace aides said soothingly. They could not say: actually, Englishmen of his upbringing think it naff for men to wear visible wedding rings. David Cameron, the prime minister, has said he will not be wearing a morning coat to the wedding. Other prime ministers have worn such formal gear to state occasions, grumbled the *Daily Telegraph*. Mr Cameron cannot say, actually I am an old Etonian who in private life might wear a morning coat: that is why I cannot wear one in public.

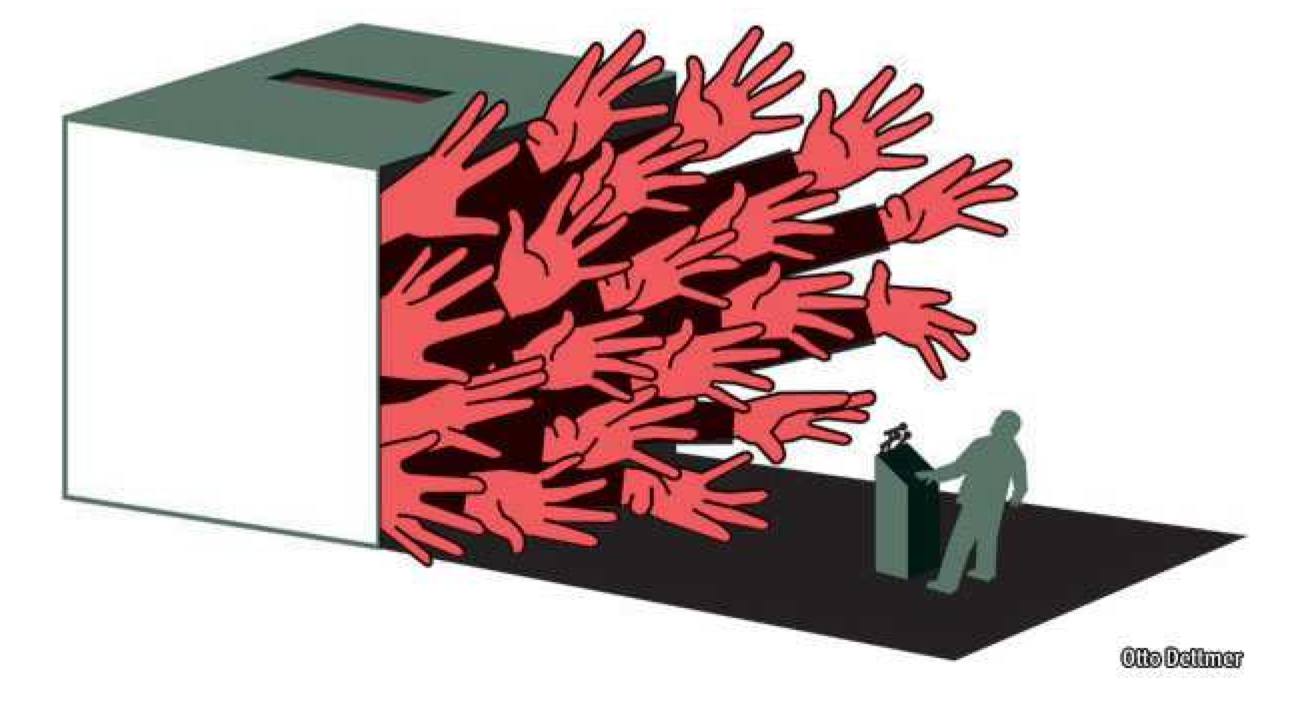
Enough. Give the British a reason to resent each other, and they will seize it with gusto. Prince William's mother used the royal family's fustiness as a weapon in her war against them; that marital fight ruined lives. By the time of its tragic ending, the British public were left queasy, cynical and divided. Miss Middleton may well be a fine person, but if her life's journey pinpoints Prince William's place in society too closely, she could end up harming him. Class shows up Britain at its worst. For the sake of the country, but also as an act of kindness, pension the royals off. Time for compassionate republicanism: it might be the best wedding present the young couple could have.

Economist.com/blogs/bagehot

Direct democracy

Vox populi or hoi polloi?

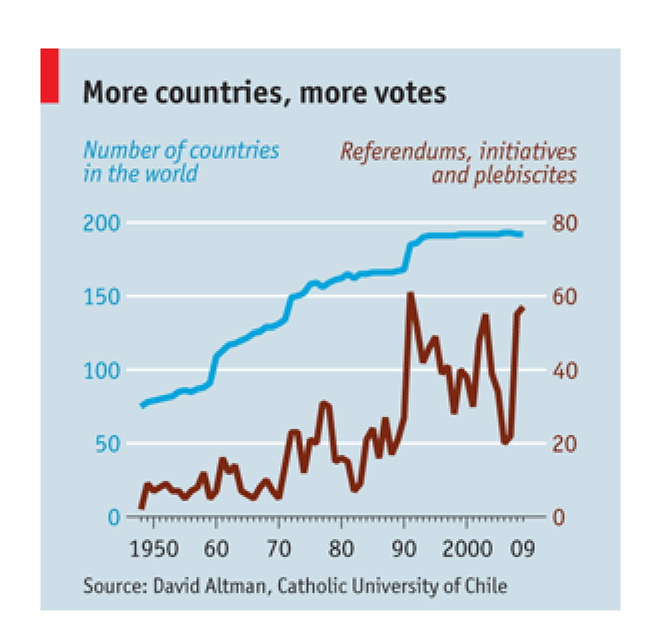
Does more voting necessarily mean more democracy? People power has its perils



IN 2004, while tossing chunks of meat to his pet Bengal tigers, Saif Qaddafi (then seen as the Libyan ruler's reformist scion) outlined to a foreign visitor his plans to convert his father's rambling theory of direct democracy into a real political system. Something on Swiss lines would be ideal.

The particular ambition may seem risible now. Yet the general sentiment is common. The Alpine federation's political system, in which citizens may vote 30-plus times a year in a mixture of local and national polls, is proving seductive for politicians and voters of all stripes.

Some Swiss votes are ordered by politicians, yet many, known as "initiatives", are binding votes on national legislation triggered by citizens' petitions. In recent years these have widened state health-insurance to cover alternative medicine; enforced deportation of foreigners guilty of serious crimes and benefit fraud; and banned the building of mosques with minarets.



Helvetian zeal for direct votes skews global statistics. Nearly a quarter of all recorded national referendums have taken place there. Countries hold almost twice as many referendums as they did 50 years ago, says David Altman, a political scientist at the Catholic University of Chile. In the past 20 years more than 100 have introduced some sort of direct voting, says the Initiative and Referendum Institute Europe (IRI-E), a think-tank.

Politicians may be getting keener on public support for new laws. But few want to allow voters to write them: that would be not so much democracy, they say, as ochlocracy-mob rule. Compact and cohesive electorates, such as in a Swiss canton, are unusually good places for such votes to work: voters are more likely to ponder the issues fully beforehand, and to deal maturely with the result afterwards.

So only a few countries give voters Swiss-style rights to take their own proposals to the ballot box. Of all the citizen-initiated nationwide votes recorded since the 1980s, 90% have taken place in Switzerland and six other states: Italy, Liechtenstein, Uruguay, Lithuania, Latvia and Hungary. The regional picture is different, though. Though the United States is one of the few democracies never to have held a national referendum, Californians were asked to vote on 14 local issues last year. Since 1996 Japan has had several hundred local polls.

Pan-European votes are in the offing too. From April 1st 2012 the European Citizens' Initiative (ECI) will allow petitioners in the European Union to propose legislation to the European Commission. Among the several criteria is finding 1m signatories (0.2% of the EU population) from a quarter of member countries. "Manifestly abusive, frivolous or vexatious" initiatives are excluded. Carsten Berg of Democracy International (a pressure group that campaigned for the ECI) notes that a successful petition does not trigger a public vote or even a parliamentary debate. It only obliges the Eurocrats to respond. Petitions already under way include a proposal to halt the introduction of genetically modified crops, and one that would bar Turkey from the EU for ever. Another wants shops to close on Sundays.

Laurence Modrego of Fleishman-Hillard, a Brussels consultancy, thinks the rise of internet voting is "game-changing". Activists used to need lots of time and money to gather support across international borders. Now planned internet-petitioning schemes make it easier. They also reduce the role of paid signature-gatherers, who plague Californian democracy (see our special report in this issue). But Bruno Kaufmann, president of IRI-E, says e-voting is not a means to speed up the democratic process. It can take many years for Swiss initiatives to pass into law. That works better than in California.

Ballot blocks

The sunshine state's experience certainly casts a cloud over the enthusiasm for direct democracy. Citizen initiatives there are blamed for fiscal ruin and incoherent, contradictory mandates. Fans of direct democracy argue that California's woes stem from the practice, not the concept. Some say that flaws in representative forms of democracy make reform essential. Mr Kaufmann says that voters increasingly want to engage in politics "issue by issue". Greenpeace, founded in 1971, has nearly 3m paying members. Over the same period, trust in political parties has shrivelled. In America "independents" now outnumber Republicans or Democrats.

Yet direct democracy does not always give power to the people. Sometimes, says Mr Altman, it can "give people to the powerful". Referendums in democratic countries may now far outnumber the sham plebiscites beloved of autocratic rulers. Yet heavy-handed rulers continue to hijack the fashion for direct democracy to quell dissent or circumvent parliamentary limitations on their power. In November Andry Rajoelina, a 36-year-old former disc-jockey who took power in Madagascar after a military coup, called a plebiscite to approve a new constitution-and keep him in control. In 2009 Hugo Chavez, who says his goal is to rule Venezuela until at least 2030, used a popular vote to abolish the term limit on his presidency. Authoritarian rulers rarely lose such votes.

The genie of direct democracy is hard to rebottle when released, even if the results prove dysfunctional or perverse. Mr Altman says that once empowered to pass legislation, electorates rarely initiate votes that might limit their own power. In that respect, politicians and the people have much in common.

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Charity and truthfulness

Storms and tea cups

A campaigner for girls' schools has his homework questioned

NICE cups of tea can have a hidden kick. On April 17th the American television programme "60 Minutes" launched a bruising attack on Greg Mortenson, an author and founder of a charity that educates girls in Afghanistan and Pakistan. His book "Three Cups of Tea" recounts how mountain villagers nursed him back to health when he was lost, inspiring him to raise money for their school. On a later trip he survived a Taliban kidnapping. But the show claims his stories are full of

fibs. Jon Krakauer, a fellow mountaineer, author and former backer of the charity calls them "beautiful" but a "lie". He has released a lengthy dossier on Mr Mortenson, entitled "Three Cups of Deceit".

Mr Mortenson's response has so far failed to impress. He blames a co-author for "literary licence" and says his book recounts a "compressed version of events". He did not respond to the programme-makers' request for an interview. He has also blamed his own disorganisation, ill health (including an impending hole-in-the-heart operation) and linguistic misunderstandings.

Presented as fact, his book has sold around 4m copies since it was published in 2006 and is required reading for American soldiers in Afghanistan. It has helped raise $60m for Mr Mortenson's grandly named Central Asia Institute, including a $100,000 chunk of Barack Obama's Nobel peace prize winnings. "60 Minutes" also claims that CAI has issued only one set of audited financial statements, that it has built fewer schools than it claims, that some of these seem unused, and that it pays for Mr Mortenson's speaking trips-sometimes including a private plane-while he keeps fees of $30,000 per appearance.

CAI said it would be "truly tragic" if "sensationalised allegations" were to harm its work. A legal investigation it initiated last year said it gained "appropriately" more from its founder's activities than he did himself

Mr Mortenson's defenders say that regardless of any personal failings, his message is sound: educating girls is one of developing countries' greatest needs. But that does not excuse telling lies or mismanaging money, if that is what Mr Mortenson did. Ken Berger of Charity Navigator, an organisation that rates do-gooders (including CAI), says that without data on finance, accountability, transparency and results, charities' storytelling is "meaningless".

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Cyber-stalking

Creepy crawlies

The internet allows the malicious to menace their victims


Courtesy Leandra Ramm

LEANDRA RAMM (pictured) is a mezzo-soprano with more on her mind than music. Someone-a deranged Singaporean cyber-stalker, she claims-has posted around 4,000 internet messages in the past five years, depicting her as a talentless, sex-crazed swindler. He has also created a blog under her name and has left obscene messages on her own website.

Ms Ramm, who lives in New York, has had scant help from the American police, who say the offence is committed in Singapore. But she says the police in Singapore have shown no interest. Ms Ramm says her career, social life and emotional well-being have all suffered. Not only does she get daily death threats, but so do all those associated with her: friends, family, colleagues and boss. She says she feels "humiliated, helpless and abused".

Police and prosecutors say that cyber-stalking-the persistent use of the internet, e-mail, social networks, instant messaging or related digital devices to annoy, harass or threaten-is growing, and that they lack the legal tools to combat it.

A study by the Bureau of Justice Statistics in America estimates that cyber-stalking afflicted around a quarter of the 3.4m stalking victims it has tallied over the age of 18 in the United States in 2006. Mike Proctor, a detective based in California with over 20 years of experience in dealing with stalking cases, says that more and more include internet harassment. He describes the crime as "woefully underprosecuted". Barack Obama highlighted the issue in a Presidential Proclamation in December to mark Stalking Awareness Month. "Increasingly, stalkers use modern technology to monitor and torment their victims, and one in four victims reports some form of cyber-stalking-such as threatening e-mails or instant messaging-as part of their harassment," it said.

Rachel MacKenzie, a psychologist who runs a behaviour programme for stalkers in the Australian state of Victoria, says that many now harass their victims through the internet. For some stalkers, the internet is just a tool of the trade. Others deploy it exclusively. But the victims of both kinds of stalker may be as frightened as those threatened physically. "There is always the fear that the stalking will enter the real world," she says. In Germany a senior detective specialising in cybercrime in Frankfurt am Main, Birgit Roth, says that internet harassment is present in some 40% of stalking cases that her force investigates. She says that victims are as traumatised as the survivors of a plane crash.

The misery they inflict seems to motivate cyber-stalkers. A pregnant victim says she barricades herself in her home and has "morbid thoughts" every day: whether her child will be born or grow up without one of its parents. Her stalker, an ex-colleague with a military background, harasses her through social-networking sites, threatening physical attack on her family.

As with many internet crimes, the law is struggling to keep up. As Ms Ramm's case demonstrates, many stalkers threaten their victims from abroad, often from countries without stalking laws. American-based internet service providers (ISPs) and firms such as Google, Yahoo! and Facebook, require court orders for information about stalkers to be served in the country of their headquarters. That can be costly and time-consuming.

Nazir Afzal, an expert on stalking at Britain's Crown Prosecution Service, says such requests can mean delays of up to three months. A real-world stalker can be arrested within hours. Mr Afzal adds that ISPs often delete e-mail data after 30 days. If the victim has also deleted the distressing e-mail, the evidence may be gone for good. Other ISPs insist on notifying their customers that the police are investigating.

Technical dodges give stalkers more flexibility. Special software allows them to send untraceable e-mails from concealed internet addresses. And investigators say that they are unable to monitor instant messaging. Valerie Caproni, General Counsel for the Federal Bureau of Investigation, complained to the House Judiciary Committee in February that her agency lacked powers to gather evidence on stalkers using peer-to-peer and social networks.

No wonder, then, that victims have little confidence in the criminal-justice system to protect them. Emma Short, a British psychologist who is setting up the world's first outfit dedicated to researching cyber-stalking, says that few victims think the police can help them and many do not report the crime. Nearly one-third say they suffered at least one symptom of post-traumatic stress disorder.

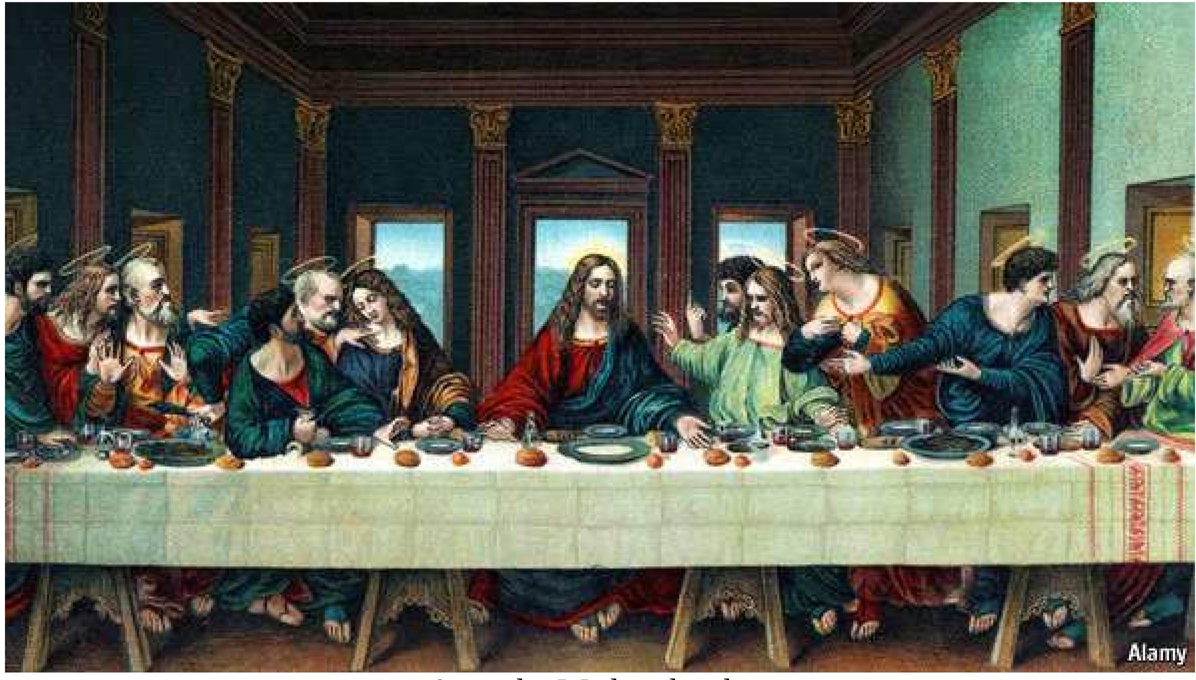
Alexis Bowater, the chief executive of a British charity, the Network for Surviving Stalking, is campaigning for European Union countries to adopt a common approach to stalking: only 12 out of 27 member states have specific laws against it. She wants others to follow Britain's lead. Police there assess every stalking case for the risk of violence; prosecutors have issued guidance on how to handle cases, and schemes are afoot to make perpetrators receive treatment when convicted. Mr Afzal is also seeking greater use of voluntary disclosure of information about suspected stalkers by agreement with mobile-phone companies and ISPs. This already happens with suspected child abusers.

Without cross-border progress on all these fronts, the deranged or vengeful will continue to enjoy virtual impunity. Ms Ramm says, "One day we will all look back, shocked that people were allowed to get away with stalking on the internet."

Easter

A date with God

Holy fires and calendrical quibbles



A regular Wednesday date

RELIGIONS have a rum relationship with calendars. They invite people to enter a reality that transcends all the limitations of time, space and finitude; yet faiths are often disputatiously obsessed with pinning down the precise moment at which certain cosmically important events occurred or should be celebrated. Christian quarrels over the date of Easter are a perfect example.

Both the Western and Orthodox Christian churches use a complex system, based on the spring equinox and the lunar cycle, to compute the date when the resurrection of Jesus Christ (and the rites that follow and precede it) should be marked. But the methods of calculation are different. This year, as last year, Western and Eastern Christians happen to agree; but the Easter dates can be as much as five weeks apart.

That can pose problems in places where Orthodox and Western Christians rub shoulders. One lot may be holding lively Paschal celebrations while the others are observing a Lenten fast. And even a common Easter date can pose difficulties, for example at the Holy Sepulchre in Jerusalem where six Christian communities jostle for space: Catholics who wish to visit Christ's tomb on Easter Saturday must turn up extra-early (at 5.30am) because of security measures for the exuberant Orthodox Holy Fire ceremony a few hours later.

Only in a handful of places do Easter celebrants alter their own arrangements to take account of their neighbours. Finland's Orthodox Christians mark Easter on the Western date. And on the Greek island of Syros, a Papist stronghold, Catholics and Orthodox alike march to Orthodox time. The spectacular public commemorations, involving flower-strewn funeral biers on Good Friday and fireworks on Saturday night, bring the islanders together, rather than highlighting division.

Could the wider Christian world ever converge on a single date? It seems unlikely. An Orthodox calendar reform of 1923, which aligned Christmas and other fixed festivals with the Western dates, led to a deep division within the Christian east; the Russians, Serbs and some conservative Greeks refused to go along. Many Orthodox are wary of any changes that could cause more splits within their ranks.

If the movement for a common, or permanently fixed, Easter date ever gains ground, a Cambridge University professor, Colin Humphreys, has made a proposal. Using a mixture of literary and astronomical sources, he thinks the actual date of crucifixion was April 3rd in the year 33AD. That places the last supper (which he thinks happened on Wednesday, not Thursday as traditionally believed) on April 1st, and the resurrection on April 5th. So, he is asking, why not celebrate Christianity's defining event on, or as near as possible, the day it happened?

Index | A special report on democracy in California

The people's will

California is an experiment in extreme democracy gone wrong, says Andreas Kluth. But reform could make it a model for others



California dream, current edition

IN THE SWELTERING June of 1852, two years after California became a state and at the height of the Gold Rush, August Schuckman "came to the first sand desert" on the trail to the land of his dreams. It stretched for 41 miles. His wagon trek entered "at night and rode 19 hours in it", Schuckman recorded in his journal. By the time they reached the next desert, the oxen died of thirst. "Thousands of cows, horses and mules were lying about dead," Schuckman wrote. "The discarded wagons by the hundreds were driven together and burned."

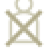
Key terms




Referendum:
A vote in which the citizens accept or reject a proposal such as a law passed by their legislature.



Initiative:
A measure put on a ballot by a petition of citizens (usually called simply a "measure" if put on the ballot by the legislature).



Recall:
A vote by the people to remove an elected official from office before the official's term expires.



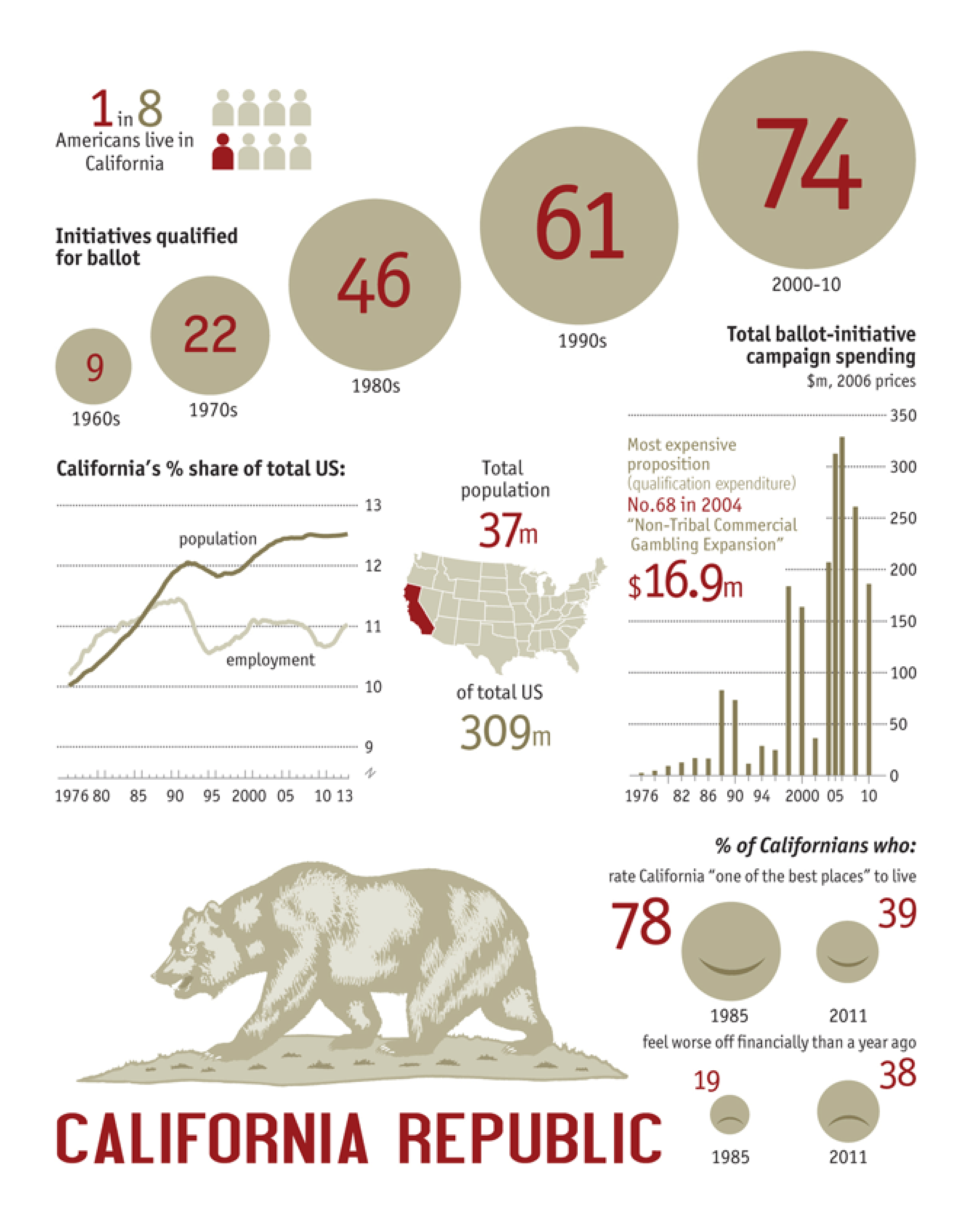
Proposition:
An initiative or measure that has qualified for a ballot and received a number in a cycle starting with 1 every ten years.

In his matter-of-fact tone, Schuckman, a German immigrant, described what many of the pioneers endured as they pursued the first incarnation of the California dream, a dream of El Dorado, of a Golden State. Hardship and risk-taking,

hopes and crushing disappointments have been part of Californian lives ever since, through booms and busts, euphorias and depressions.

Indeed Mr Schuckman, one of hundreds of thousands who came to California during the Gold Rush, was so typical that he might have remained anonymous, had he not sired an impressive line of Californians. One of his grandsons was Pat Brown, governor from 1959 to 1967. Brown played a big part in defining that generation's California dream-a vision of prosperous middle-class living-by building many of the freeways and aqueducts that today connect and irrigate the vast and dry state, and by turning its public universities into some of the world's best factories for talent and innovation.

And one of Schuckman's great-grandsons is Jerry Brown, Pat's son. This Brown was one of California's youngest governors between 1975 and 1983. This year he again became governor-at 72, California's oldest. And, commencing his third term during one of the worst economic crises since the second world war, Mr Brown chose to quote from his immigrant ancestor's journal in his inauguration address.

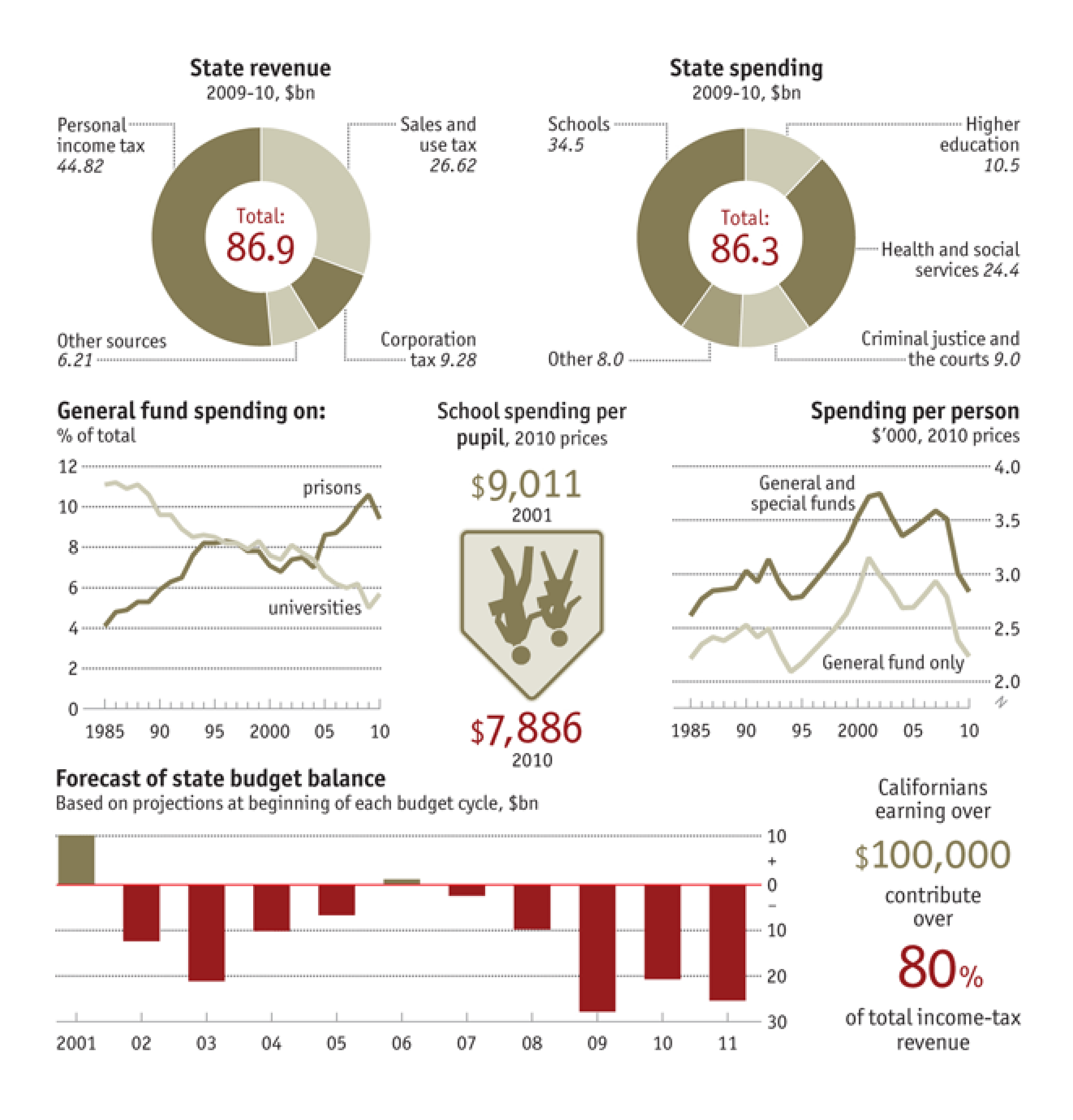


In doing so, Mr Brown wanted to remind Californians to keep dreaming and enduring as August Schuckman had once done, and to put today's troubles in perspective. Yes, many Californians have lost their homes, jobs, health care and welfare services, Mr Brown implied. But they are not burning wagons and their lives will improve again, as Schuckman's did.

It is striking that such a reminder should even be necessary in a state that once symbolised optimism. But such is the Californian state of mind today. Superficially, California might still resemble its old self. In becoming governor this year, Mr Brown succeeded a former Hollywood star (Arnold Schwarzenegger), just as he did in 1975 (Ronald Reagan). The palm trees, surfers and redwoods are still there. So is Disneyland. But the state has, at least for the time being, ceased to be the world's dream factory.

Instead, California is now called a "dysfunctional", "ungovernable" and even "failed" state. When Mr Brown began his first stint as governor, California had an AAA credit rating, the best there is. Today its rating is A-, the worst among all 50 states and not much better than "junk". The boss of JPMorgan Chase, America's second-largest bank, last year told investors that he was more worried about California's solvency than Greece's. For three years and counting, California has been mired in a budget crisis. At its nadir, the state was paying its bills in IOUs instead of cash.

California is extremely unlikely to default on its bonds (if only because its constitution ranks bondholders ahead of everybody except schools to get paid). But it has already defaulted on the expectations and dreams of many of its citizens. Since the recession began, California has had to cut its spending by more than the size of the entire budget in most states. And it will have to cut a lot more.



Behind these cuts is human hardship-poor families who will no longer get subsidised child care to allow the parents to work, old and sick people who no longer receive visits from carers, pupils who sit in larger classes and get less attention, young people who can no longer afford to pay the higher tuition fees of the state universities. And things will get worse before they get better. California will face structural deficits of about $20 billion a year for quite a while, according to Mac Taylor, the state's non-partisan legislative analyst.

The immediate cause for this cataclysm was the recession. The housing bust and foreclosure crisis struck hardest in the "sand states" of the south-west-California, Nevada and Arizona-and in Florida. At 12.2% as of February, California now has the second-highest unemployment rate (after Nevada) of all American states, compared with a national figure of 8.8% in March.

At first blush, the current crisis might appear to be just another iteration in the endless Californian story of boom and bust. To count just the gyrations since Mr Brown's previous governorship, there was the defence boom of the 1980s that made swathes of southern California (an aerospace centre at the time) prosper, which turned into a bust (the "peace dividend") in the early 1990s from which the region never fully recovered. There followed the dotcom boom in the late 1990s, which promised to make silicon the new gold in the San Francisco Bay Area. It became the dotcom bust after 2000. Then came housing.

Culturally, Californians seem to accept such feast-or-famine living more than others. Their northern neighbours like to remind visitors of the famous fork (somewhere in today's Idaho) in the Oregon Trail that led the wagon trains to the Pacific coast. The builders and settlers, goes the story, followed the Snake and Columbia rivers and became Oregonians and Washingtonians. The gamblers and risk-takers turned south on the California Trail over the Sierra Nevada, ready to strike it big or not at all.

Indeed, California even today amplifies its boom-bust cycles. Consciously or not, it has built a tax system that is not only incomprehensible to its citizens but unusually volatile, relying disproportionately on income taxes, and especially on the capital-gains taxes of its wealthiest residents. When times are good, taxes spout. When times are bad, revenues disappear. The state, constitutionally barred from running deficits (as the nation as a whole may), thus expands and contracts in an automatic and anti-Keynesian wave pattern that exaggerates ups and downs.

But to conclude from this history that California merely needs to wait for the economic tide to turn once again would be disastrously wrong. Warren Buffett, renowned as much for his aphorisms as for his investing, has said that "you only find out who is swimming naked when the tide goes out." And each ebb during the three decades since Mr Brown's first reign has revealed California less dressed than before. Each flood then briefly restored its modesty. But this latest ebb has shown the state to be stark naked.

The rip tide of democracy

That nakedness, the result of a gradual stripping over decades, has nothing to do with housing or foreclosures or internet shares. Nor is it the fault of individual governors. Instead, it has to do with governance. For what is unique about California is not its set of challenges (pupils, pensioners, prisoners, to list just the Ps), which differ in scale but not in kind from those elsewhere. It is its brand of democracy, as this special report will show.

California's democracy is not at all like America's, as conceived by founders such as James Madison. The federal constitution is based on checks and balances within and among three and only three branches of government-executive, legislative and judicial. That is because Madison feared that popular "passions" would undo the republic, that majorities might "tyrannise" minorities, and that "minority factions" (ie, special interests) would take over the system. America's was therefore to be a representative, not a direct, democracy. "Pure democracies have ever been spectacles of turbulence and contention," Madison wrote, "and have in general been as short in their lives as they have been violent in their deaths."

This notion did not travel well to the vast emptiness of America's frontier. The likes of August Schuckman were rugged individualists who trusted themselves more than any representative to run their affairs. So they instinctively embraced a direct and participatory form of democracy which they imported (with consequential alterations) from Switzerland, adding a fourth branch of government to the three existing ones.

For much of the 20th century the resulting governance structure did no harm because voter initiatives were used sparingly. But then, starting in 1978, the culture and system mutated. Jerry Brown was governor when Californians passed Proposition 13, ostensibly an anti-tax measure but in reality a fundamental constitutional change with vast, and mostly

unforeseen, consequences. It led to hundreds of ballot measures as citizens increasingly legislated directly and in tense competition with their own representatives.

This special report will chronicle how such voter legislation stripped California naked, leaving it unable to respond to external shocks such as the current economic crisis. This story is of global interest, for California has inadvertently made itself a negative model for other democracies. As Nathan Gardels, an adviser to the Think Long Committee for California, a new and promising reform effort, puts it, California has become a "diet-Coke civilisation of consumer democracy, of services without taxes, like sweetness without calories, of rights without duties".

California thus stands as a rare, and perhaps unique, counterpoint to the many countries whose main problem is a lack of democracy. At a time of turmoil in the Arab world, California is a reminder that democracy, like capitalism, can take many different forms, and that it is intended as a means to an end, the end being liberty. Should it ever mutate into a counterproductive form, reform becomes necessary.

Infographic sources: Centre for Governmental Studies; Field Poll; Legislative Analyst's Office; Census Bureau

Fortunately, such reform has now become not only possible but likely. For the state retains a potential unsurpassed elsewhere. It has the most diverse population and economy in America. From Stanford and Apple to Hollywood, it is a magnet for talent, which is why venture capitalists invest about as much money in California as in all other states combined. Californians still have the imagination and frontier spirit that August Schuckman once had. And they know that sometimes one must burn the wagons to keep dreams alive.

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Direct democracy

Origin of the species

From Athens via Switzerland to the Wild West

ONE HUNDRED YEARS ago Hiram Johnson, one of the most consequential governors in California's history, called a special election. Johnson was a leader of a movement called Progressivism that reacted to America's industrialisation by demanding women's suffrage, direct election of United States senators (originally chosen by state legislatures) and other expansions of democracy. In this Californian election voters had to decide on three new types of balloting: referendums, recalls and initiatives. They accepted them all with enthusiasm.

And thus, in October 1911, California adopted the three tools of modern direct democracy. It was not the first state to do so. South Dakota had adopted initiatives in 1898, and Utah, Oregon, Montana, Oklahoma and other states had begun mixing their own cocktails of direct democracy from the three ingredients. Referendums, in which voters approve or reject laws already passed by a legislature, were the least radical change. Recalls, in which voters remove elected representatives and even judges in mid-term, seemed more adventurous.

But initiatives (called "propositions" in California once they are listed on an actual ballot) had the most potential to turn politics upside down. They turn voters into legislators, since a successful initiative becomes statute. In states like California, initiatives can even turn voters into founding fathers who amend the state constitution. There are worlds of nuance in the detail. The package that California chose was especially powerful.

Californians thus explicitly chose a path that diverged from the one America's founders had taken. To understand California's problems today, you need to know what tradition California departed from. James Madison, Alexander Hamilton and their peers, as they met for the constitutional convention in Philadelphia in 1787, had deliberately rejected direct democracy. So why did Californians second-guess them?

Deeply versed in the classics, the founders had seen ancient Athens as the main historical example of direct democracy. In that city every male adult citizen voted in the assembly and there were no distinct executive or judicial branches. But this was also the Athens that condemned Socrates to death, rashly launched a disastrous pre-emptive war against Syracuse and barely survived repeated oligarchic coups before succumbing to undemocratic Macedonia.

Greek thinkers such as Aristotle and Polybius concluded that democracy was inherently unstable because it led to mob rule (in the same way that monarchy deteriorated into tyranny and aristocracy into oligarchy). Those three elements, monarchy, aristocracy and democracy, thus had to be balanced for a state to remain free, they argued. Rome (before the emperors) became the prime example of such a mixture. It was a republic, a "public thing", but not a democracy, a thing "ruled by the people". It had executives (in the shape of two annually elected consuls), an elite in the senate, and outlets for the *vox populi* in the popular assemblies.

To this Roman ideal of republicanism the thinkers of the Enlightenment added more liberal notions of freedom. John Locke injected a rather English emphasis on property and individualism. France's Baron de Montesquieu, a huge influence on America's founders, celebrated the commercial aspects of liberty. He also spelled out the separation of powers between the executive, legislative and judicial branches.

Against this intellectual backdrop, much of the famous debate that took place in 1787 and 1788, as the states had to ratify the proposed new constitution, was about how indirect America's democracy should be. Both sides showed fealty to the historical ideal by writing under Roman pen names. Madison, Hamilton and John Jay, in the Federalist Papers, wrote as Publius, one of republican Rome's first consuls. The Anti-Federalists opposing the constitution wrote as Brutus, the other consul, or as Cato.

The Anti-Federalists made a populist case for a direct democracy in which citizens participated actively, says Thomas Pangle, a professor at the University of Texas at Austin. The Federalists considered this view naive and dangerous. The society they envisioned was to be large, diverse and commercial. Madison, in particular, worried that a majority might oppress minorities, and that elected representatives might legislate out of "passion".

Above all, Madison understood that a large and diverse nation would necessarily have many antagonistic "minority factions", or special interests in today's language. He wanted to contain these interests safely within a republican structure. Yes, they should have representation. But they should all compete against one another in the House of Representatives. The resulting laws would then be filtered through the Senate and the two other branches. As George Washington memorably told Thomas Jefferson, this was to "cool" House legislation as a saucer cools hot tea.

The Federalists won the debate, and America's constitution (though much amended) remains the most durable in existence today. It balances not only minority factions, as well as populism and elitism, but also the federal and state governments. This is why, in the 19th century, Switzerland took an interest in it.

Switzerland after the Napoleonic wars faced a situation quite similar to America's a generation earlier. Several independent states (cantons) needed to band together in a stable confederation that preserved both unity and diversity, and thus freedom. After a small but traumatic civil war between Protestant and Catholic cantons the Swiss decided in 1848 to import America's constitution almost wholesale.

But Switzerland already had its own tradition of democracy. Starting in the 14th century, farmers in the Alpine valleys had formed assemblies not unlike those in ancient Athens in which all men made laws. They also sent delegates to co-ordinate policy (building a road, say) with farmers in other valleys. Such agreements had "to be carried back", ad referendum in Latin, for approval in the assembly.

The Swiss grafted this tradition of direct democracy onto their American-style federal constitution. For the first time in history, initiatives and referendums thus became a regular part of national, as opposed to local, governance. But the details of this Swiss system were designed to serve its cultural and political purpose. As Corina Casanova, Switzerland's federal chancellor, puts it, "we strive to solve conflicts through consensus and compromise." Direct democracy aids, rather than hinders, that.

Any amendment to the Swiss constitution, for example, requires a referendum. But it also needs a simple majority of the cantons in the legislature. So just over half the cantons, which might represent a minority of Swiss voters, can overrule the majority in a referendum, thus addressing Madison's worry about majoritarian tyranny. The proposed amendment then goes back to the legislature for redrafting-ie, for Washington's "cooling".

The same applies to initiatives. Citizens may launch one, but the legislature then has the option to draft a counter-proposal. Long before any voting, two or more drafts of legislation circulate, all trying to address the same problem. "In practical terms this means that behind the scenes, initiative committees and the authorities engage in a process of bargaining," says Ms Casanova. "This leaves no room for extreme solutions, only well-balanced solutions backed by all."

If the legislature presents a good alternative, sponsors may withdraw their initiatives, and many do. This drawn-out vetting process prevents conflicting initiatives as the various committees iron out legal and logical wrinkles. Much as Madison envisioned, the various special interests in Switzerland must eventually find common ground in what Ms Casanova calls an "institutionalised search for compromise".

This was not, however, what attracted America's Progressives to the Swiss model. John Randolph Haynes, a Californian doctor, founded a "direct-legislation league" after a trip to Switzerland. Nicknamed "Recall John", he brought city-wide direct democracy to Los Angeles in 1903. He then joined William Rappard, a Swiss academic and diplomat who was teaching at Harvard at the time, and others, including Hiram Johnson, to extend the system to the whole state.

Unlike the Swiss, these Californian reformers had in mind a specific enemy, against which direct democracy seemed the ideal weapon. California was no Switzerland: much of it was still empty, geographically isolated and an institutional vacuum. Into this vacuum had stepped a private power: the railroad.



Blame it on the Southern Pacific Railroad

Founded in 1861 as the Central Pacific and later renamed the Southern Pacific, it was soon known as "the Octopus" because its tentacles corrupted every part of the state. The Southern Pacific bribed and cajoled legislators, judges, journalists and mayors. At one point one of its founders, Leland Stanford, was governor. He appointed a co-founder's brother, who was also the railroad's chief counsel, to the state's Supreme Court.

As one reporter wrote in 1896, "it didn't matter whether a man was a Republican or Democrat. The Southern Pacific Railroad controlled both parties, and he either had to stay out of the game altogether or play it with the railroad." This was the corruption that enraged California's Progressives. Hiram Johnson was especially livid. He had begun as a fisticuffs prosecutor in bribery and graft trials where he won the fame that launched him into politics.

From the start, Californian direct democracy thus had the opposite social purpose of its Swiss mother. As Ms Casanova says, the Californian system was designed to be "confrontational". For example, it is quite difficult for petitioners to call a referendum, which merely passes judgment on a decision by elected representatives. But it is easy to launch an initiative, which circumvents the legislature by letting citizens make law.

California is also unique, in America and the world, in treating every successful initiative as irreversible (unless the initiative itself says otherwise). The legislature cannot change it. In effect, this makes initiatives a higher class of law. In California they often amend the constitution. And whereas Switzerland ensures that different initiatives are mutually compatible, California makes no such effort. A single ballot can contain directly contradictory initiatives, in which case the one with the most yes votes wins.

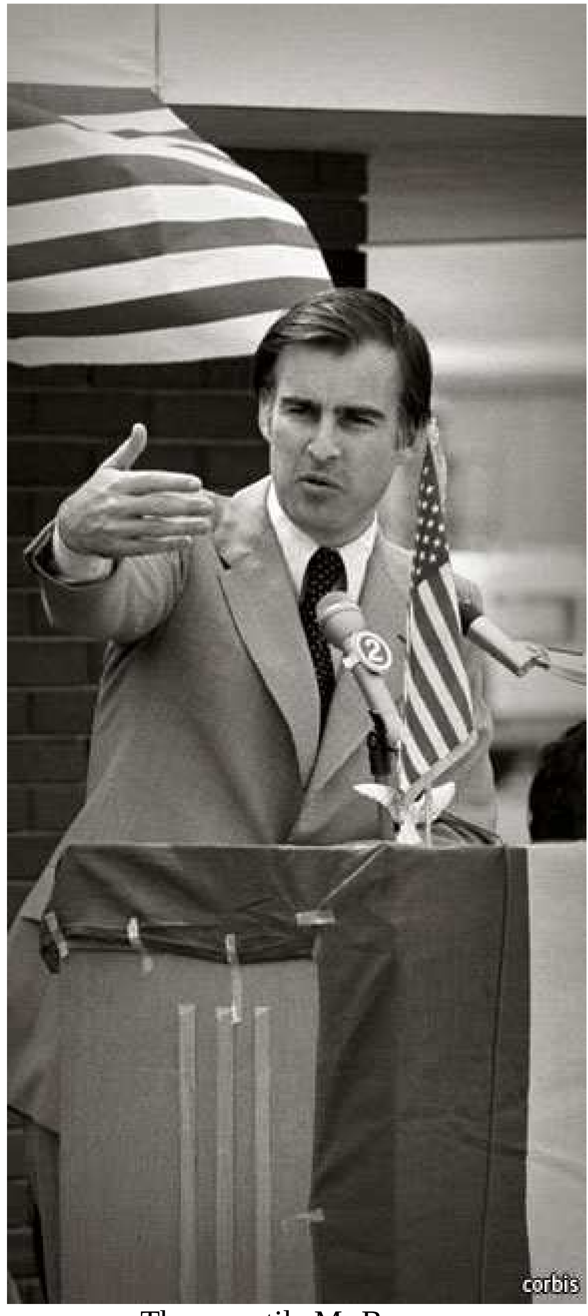
Direct democracy in California is thus an aberration. It has no safeguards against Madison's tyranny of the majority. It recognises no saucer that might cool the passions of the people. Above all, it is not a system intended to contain minority factions. Instead, it encourages special interests to wage war by ballot measure until one lobby prevails and imposes its will on all. Madison and Hamilton would have been horrified.

But in 1911 none of this was yet clear. The system had the potential to be coercive, but its actual effect would depend on context and usage. Indeed, the number of ballot measures, once the novelty wore off, declined and stayed low as the Southern Pacific's power faded naturally. For decades, immigrants populated the state, and most problems seemed to take care of themselves. But all this changed abruptly in 1978, with an unprecedented initiative that shapes the state to this day: Proposition 13.

Proposition 13

War by initiative

A case study in unintended consequences



The versatile Mr Brown

DURING JERRY BROWN'S first term in the 1970s his hair was still full and dark. His voice was not yet gravelly. Unlike his back-slapping father, he still bore traces of the Jesuit seminary where he had once studied to become a priest. He meditated on Zen *koans*. He declined the governor's mansion and slept on a mattress in a rented flat. He dreamed of large things whose time had not yet come, such as green energy. And yet, or perhaps because of all this, Jerry Brown failed to notice the anger boiling over in his state.

Californians were angry about property taxes. These local taxes were the main revenue source for school districts, cities, counties and California's many specialised municipal jurisdictions. And they had been rising. A homeowner's property tax was determined by two factors. One was the tax rate, the other the assessed value of the house to which the rate was applied. These assessments were soaring: between 1972 and 1977 home prices in southern California more than doubled, thus doubling homeowners' tax bills. Mr Brown and the legislature fiddled with relief measures, but their bills were half-hearted and the taxpayers were angry.

Into that anger stepped a man named Howard Jarvis. In personality he was the antithesis of Jerry Brown, which made for a photogenic contrast. He was a Utah newspaper publisher who had moved to California, attempted and failed to become a senator, tried his luck in Hollywood and now ran an association of property owners. He, too, was livid. "I'm Mad as Hell", he later screamed in the title of his autobiography. Some posters showed him with a raised fist.

Jarvis decided to circumvent the legislature and take the matter directly to voters. In this sense, property taxes became the analogue to what the Southern Pacific Railroad had once been: the focus of popular anger, the obvious target on the next ballot, indeed a quintessential example of why the initiative process was necessary at all.

With a partner, Jarvis sponsored an initiative that would become known as Proposition 13. It cut the property-tax rate from an average of 2.6% to 1% in every county. It also capped the increase in assessed values to at most 2% a year, unless the property was sold. To prevent the resulting revenue loss from being made up with other charges, Proposition 13 also required two-thirds supermajorities in the legislature for any tax hike.

The opposition, which included much of the state's elite in both parties, stood little chance. Mr Brown tried to make a cerebral case for an alternative initiative, but hardly anybody paid attention. On June 6th 1978 Californians went to the polls and, by a margin of almost two to one, approved Proposition 13.

The first and immediate consequence was relief for homeowners and a corresponding emergency for local governments as revenue from property taxes dropped by more than half. Almost overnight, it seemed as though cities would have to close parks and counties would have to deny their residents medical and welfare services. Schools would have to lay off teachers and eliminate summer programmes and advanced classes.

Mr Brown, meanwhile, performed a stunning U-turn. Having campaigned against Proposition 13, he suddenly decided to implement it zealously. Jarvis was so pleased that he endorsed Mr Brown, who was re-elected five months after Proposition 13 passed. The governor's new nickname was "Jerry Jarvis".

But cities, counties and schools were not going bust after all. The state had a budget surplus and decided to bail out local governments by passing to them roughly the amounts they had lost in property-tax revenues. The following year that one-off transfer turned into a permanent financing mechanism. Even the remaining property-tax revenues would henceforth be allocated by the legislature in Sacramento.

In effect, cities, counties and school districts thus lost their funding independence. Instead of local governments setting their own taxes, they became tentacles of the state octopus. The resulting flow of payments is notoriously opaque-and also ironic, given that Mr Jarvis and his supporters thought of themselves as small-government conservatives. A central tenet of American conservatism is to decentralise power. But one unintended consequence of Proposition 13 was "the centralisation of virtually all finance in Sacramento", says Lenny Goldberg, director of the California Tax Reform Association.

Today this centralisation is one of the biggest differences between California and other states. Bruce Cain, at the University of California, Berkeley, and Roger Noll, at Stanford University, identify it as the "distinctively dysfunctional element". California transfers about 71% of its state revenue to local governments. Because the money comes from the state, local administrators no longer have much incentive to spend it efficiently.

Production-line politics

But Proposition 13 cast its shadow far beyond finance. It changed political culture. Up to this point, the initiative process had been described as a "safety valve". Now it became an industry and a circus. Proposition 13 had made Mr Jarvis a celebrity. He graced magazine covers and made a cameo appearance in "Airplane", a 1980 film. Hollywood types, Silicon Valley tycoons and other big egos took note and started their own initiatives.

So did James Madison's "minority factions", the special interests. The teachers' union attacked from the left. The prison guards' union charged from the right. From environmentalists and potheads to evangelical Christians and Indian tribes, from insurers to oil and tobacco companies, the initiatives poured forth. Ballot measures have amended the constitution to prohibit gill nets and to regulate how fowl are to be kept in coops. They have authorised faster trains and new hospitals, mandated ever tougher sentencing laws and governed DNA sampling and stem-cell research.

As the numbers of initiatives surged, the qualification process changed beyond recognition. Hiram Johnson and his Progressives had envisioned idealistic volunteers petitioning citizens for signatures and debating causes they believed in. But after Proposition 13, signature-gathering became an industry and access was determined by money.

An entrepreneur named Ed Koupal is usually credited with setting the precedents that circulators of petitions follow today. With his wife, Joyce, he developed the "table method" of signature-gathering. A group of paid professionals put the paperwork on a folding table in a mall or public plaza and then roam around the table, approaching passers-by. They do their best to avoid discussing the subject of the petition, instead ushering people to the table, where another team member pressures them into signing in conveyor-belt fashion.

Another tactic is the "clipboard method". A signature-gatherer finds a slow-moving queue at a bus stop or cinema, then "works the line", from which people cannot easily escape. The record is apparently held by a circulator who once gathered 700 signatures in one day by going through a queue for the Tutankhamun exhibition at the Los Angeles County Museum of Art.

That circulator gathered signatures for Kimball Petition Management, founded by Fred Kimball and considered the seed of the industry as it exists today. Rather than wait passively for clients (ie, sponsors who need the signatures to qualify their initiatives for the ballot), Mr Kimball came up with his own ideas for initiatives, then sought out someone rich to sponsor them.

As his son, also called Fred Kimball, explained to *The Economist*, the pricing for signatures today is based purely on market conditions. The circulators are independent contractors who work for several petition-management firms at the same time and often have four or more petitions simultaneously on their folding tables. They "sell me their signatures", says Mr Kimball, and he in turn charges the sponsor a mark-up.

Early in the 150-day collection period, prices might start at 10 or 20 cents per signature. As the deadline approaches, they rise, perhaps to several dollars. Some sponsors bid more than others, and a hard-working and determined circulator can earn up to $50 an hour. Since paid circulators, unlike volunteers, are interested only in volume, not the underlying cause, the quality of the signatures is low. Many are illegible, incorrect or fake (some people sign "Mickey Mouse"). Then a verification process gets going.

Several states, including Colorado, Idaho and Nebraska, have tried to ban paid circulation and return to volunteer petitioning. But America's Supreme Court overturned these efforts in 1988, arguing that they would violate free speech. In California the result has been to push up the cost of qualifying an initiative into the millions.

But even that is small change compared with the cost of the media campaign that ensues once a measure is on the ballot. Before Proposition 13 spending on initiatives was about $9m per election. A decade after Proposition 13 it was $127m, as opponents in each campaign blanketed the airwaves and filled mail boxes across the huge state with propaganda. The upshot, as Karen Bass, a former Democratic speaker of the state assembly, puts it, is that "any billionaire can change the state constitution. All he has to do is spend money and lie to people."

The initiative culture as it exists in California today may thus resemble James Madison's worst nightmare. Passions are inflamed rather than cooled. Confrontation replaces compromise as minority factions battle one another with rival initiatives. In 2009 Ronald George, at the time California's chief justice, worried publicly about the effect on liberty: "Has the voter initiative now become the tool of the very types of special interests it was intended to control, and an impediment to the effective functioning of a true democratic process?"

As though to provide a historical bookend, even the Southern Pacific Railroad got into the game. In 1990-by which time it was just another special interest-it financed a successful initiative to issue $2 billion in bonds for expanding rail transport. Few Californians appreciated the irony of their one-time bogeyman co-opting the process invented as a defence against it.

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Stateside and abroad

Direct democracy is global and spreading, though the flavour varies

IN ALL 50 STATES citizens may occasionally have a referendum put before them by their state legislature. But only 24 states are considered to have statewide direct democracy, defined as a process in which citizens themselves place initiatives or referendums on ballots. The differences are huge. Of the more than 2,000 statewide initiatives in American history, the overwhelming majority have taken place in just a handful of states, led by Oregon, California and Colorado. In those states, direct democracy is in effect a fourth branch of government. Elsewhere it plays a negligible or minor role. Legally and culturally, says Dane Waters, an expert, "California is a different animal altogether."

Three states allow initiatives only to amend the state constitution, and one of these, Illinois, makes this so difficult that only one binding initiative has ever qualified. Another six allow initiatives only to enact statutes. Some allow unlimited time to gather signatures, others a few months. (California, with 150 days, gives circulators very little time.) States such as North Dakota, Montana and Ohio require few signatures to qualify an initiative; others, such as Wyoming, ask for lots.

Such nuances affect the way the process is used, even leaving aside the political culture. In California, a huge market with expensive media and with a short period to collect many signatures, money is crucial. In a small, homogeneous state that makes the process easy (Montana, say), signature-gathering might be done by old-fashioned volunteers.

Direct democracy is also on the rise globally, says Bruno Kaufmann, the Swedish-Swiss president of the Initiative and Referendum Institute Europe. Switzerland is still the gold standard. But countries from Uruguay to the Philippines and New Zealand have their own version, and places like Thailand, Brazil and South Korea are adopting or expanding theirs. The European Union has just introduced the first supranational initiative process, with very fancy electronic signature-gathering.

Referendums are often the main instrument. Those countries trying the initiative process, says Mr Kaufmann, usually aspire to the Swiss ideal of a "conversation" between voters and legislators, in which ballot measures are at best "screwdrivers" to tighten or loosen a bit here and there. The "antagonistic" Californian model, where initiatives are "hammers" to smash things, is one to avoid, he says.

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California's legislature

The withering branch

How the initiative process has redistributed power



The Capitol is fighting a losing battle

IN 1971 A CONFERENCE of state legislatures concluded that California's "comes the closest to having all the characteristics that a legislature should have". A lot of people agreed. In the mid-1970s a political scientist, William Muir, was so impressed by the collegiality, expertise and diligence he witnessed in Sacramento's capitol that he called his book "Legislature: California's School for Politics". It was, he said, "the finest in the world".

Alas, Mr Muir was working on an academic time scale and his book, though researched before Proposition 13, was not published until the 1980s. By then the initiative storms were buffeting the legislature. And thus another perfectly good book title became the victim of terrible timing as a model political institution turned into a caricature of itself.

Today Californians reserve a special disdain for their legislature. When Arnold Schwarzenegger called legislators "girlie men", Californians for once agreed with him. In a poll last December by the Public Policy Institute of California (PPIC), a non-partisan think-tank in San Francisco, 81% of voters disapproved of their legislature and only 12% approved: blood relatives and paid staffers, as the joke goes.

California's legislature must therefore have undergone a stunning decline in the past three decades. What role the initiative process had in this deterioration is a chicken-and-egg question. In Hiram Johnson's day initiatives seemed to be needed as a check on a venal legislature. Now perhaps a dysfunctional legislature is triggering a plethora of initiatives as citizens take matters into their own hands.

The alternative view is that the initiative process, by mutating into a virulent form after Proposition 13, caused the decline of the legislature. This side includes Joe Mathews and Mark Paul, authors of "California Crackup: How Reform Broke the Golden State and How We Can Fix It". Because of the cumulative onslaught of citizen legislation, "lawmakers slowly lost their control over pieces of the law, then over the budget," they argue.

Too small for the job

Clearly the legislature suffers from some problems unrelated to the initiative process. For a start, it is almost comically small, given California's size. America's most populous state has the 35th-largest legislature, with 120 legislators (80 in the assembly, 40 in the senate) representing some 37m people. A Californian legislator thus represents three times as many people as does his counterpart in New York or Illinois. This must be a bad thing. Voters in California tend not to know their representatives.

For candidates it means that money becomes a crucial issue. Politicians cannot shake enough hands and therefore need to saturate the media to make themselves known. This costs money and makes them beholden to big donors. That is why Democrats in Sacramento are often in the pockets of the teachers' or nurses' union and Republicans in those of the prison guards' or cops' union.

That dependence is one explanation for the hyper-partisan animosity in the capitol. This exists all over America, but California has more than its fair share. It did not help that primary elections have for years been partisan affairs in which candidates on each side are chosen by their respective extremists before advancing to the general election. Gerrymandering, the practice of legislators drawing their own district boundaries to suit themselves, made things even worse. (It might also explain why the same voters who claim to loathe their legislators re-elected every incumbent on last November's ballot.)

The initiative process, in this case, may prove to have done some good. Last November voters approved a measure to adopt a so-called top-two primary system in which all voters, irrespective of party affiliation, vote in the same primary and the winners, also irrespective of party affiliation, proceed to the general election. In another initiative, voters handed the power of drawing district boundaries to an independent commission. In time, these two steps may help moderate candidates.

In other respects, however, initiatives have made partisan gridlock worse. Until last November an initiative required two-thirds supermajorities in both chambers to pass a budget (although yet another initiative has now returned this threshold to a simple majority). And Proposition 13 added the requirement of two-thirds supermajorities for any tax increase. Until very recently, California was thus the only state that required supermajorities to decide both revenues and appropriations.

As voters intended, this made it easier to lower taxes than to increase them. The legislature could provide a favoured group with a new tax loophole by a simple majority, but eliminating the same loophole at some later point would require two-thirds.

But there were also, as usual, unintended consequences. A supermajority requirement means that one "no" vote in the legislature counts the same as two "yes" votes. It thus doubles the power of the minority party, as long as that party has more than one-third of the legislature and can force its members to vote as a block. In California the Republicans are in that situation.

Messrs Mathews and Paul argue that the Republicans have become what game theorists call "hostage-takers". They discovered that, although they could not pass laws by themselves, they could block the most important ones, including the budget. Simply by stalling, they could thus paralyse state government until the majority party made some concession to one of the Republican lobbies. This is the main reason why California has so often had late budgets. The Republicans gambled that voters would blame either the majority party or the entire legislature. The Democrats rejected blame as though they were the minority party. The initiatives that imposed the supermajority rules thus made the legislature less, not more, accountable.

At the same time many other initiatives, incrementally and stealthily, usurped power from the legislature through "ballot-box budgeting". More than 100 of the initiatives of the past two decades promised something for nothing, such as cutting a tax or expanding a service. Of those initiatives, about two-thirds passed. Who could be against better mental-health care, or against locking up criminals longer to keep the streets safe? Public parks sound good, as does pristine nature. And so forth.

More and more of the budget thus became allocated before the legislature ever sat down to negotiate. Karen Bass, the previous leader of the state assembly, says that "we have control of only 10% of the budget." Whatever the precise percentage is, voters long ago seized most power of appropriation from their legislature. This is highly undesirable. The mandate of representatives in a Madisonian republic is to analyse the trade-offs inherent in any policy. For example, an inmate in a Californian prison costs about $47,000 a year to keep. If that inmate is non-violent, would this money be better spent on educating several children (who might then avoid becoming prisoners a decade hence and instead pay taxes)? The ballot box does not allow for such deliberation.

Voters, however, see things differently. They do not blame themselves but their legislature for California's recurring budget crises. In this, they resemble "the boy who murders his mother and then complains that he's an orphan", as Messrs Mathews and Paul put it. Increasingly irate, voters then want to chastise the legislature even more.

The best example was Proposition 140 in 1990, which made California one of the first three states to adopt term limits for legislators. Fifteen states now have these in some form, but California's are among the strictest: six years in the assembly and eight years in the Senate. At a casual glance on a ballot paper, term limits might seem like a great idea. If legislators can't be trusted, why let them get entrenched? Fixed terms might bring in fresh faces.

In practice, however, term limits too have had unintended consequences. First, they banish expertise from the capitol on a regular basis. In the days when William Muir praised California's "school for politics", new lawmakers often spent years learning their trade in various committees before becoming leaders of their party or chamber. They had well-paid permanent staff who researched the various policy areas.

Such learning has become impossible. In every election cycle, at least ten senators and 27 assembly members are termed out. So term limits, says Ms Bass (who was termed out last year and is now a national representative in Washington, DC), really mean that "the first two years you're trying to figure out where the bathroom is, the last two years you're running for something else. That leaves two years in the middle."

This once again contributes to partisan rigidity. "Knowing they won't be around for a long time, there's no incentive to compromise," says Gary Moncrief, an expert on legislatures at Boise State University in Idaho. With so little time, every vote counts as legislators try to repay their debts to the donors who put them in the job and prepare their next career move. They need not worry about a politically convenient vote that has long-term costs because those will be the problem of a different set of legislators.

In 2002 Idaho's legislature became the first to repeal that state's term-limits initiative. Legislatures or courts in five other states have since followed. But California does not allow initiatives to be amended, so they remain until the issue comes to the ballot box again (which may be next year).

The net effect of all initiatives is that the legislative branch of California's government has been split in two. The initiative process, originally meant as a safety valve, has in reality become a rival to the legislature. Two law-making bodies-the voters and their representatives-are in open competition. The tragedy is that this undermines democracy by eliminating one of its main purposes: accountability. Schools have suffered the most.

A lesson in mediocrity

California's schools show how direct democracy can destroy accountability



The dark side of Proposition 13

EVERYTHING ABOUT CALIFORNIA'S school system is complicated, starting with the question of how bad its public schools are. Comparisons show that students in California fare worse than the national average in mathematics, reading, science and writing. But the numbers are unfair, says John Mockler, an expert in Californian education who has been following its fortunes since the 1960s. For instance, half of California's pupils are Hispanic, and 40% of those hardly speak English. Most other states don't face this problem.

Nonetheless, there is a broad consensus that California's public schools are not what they could be, nor what they used to be. California ranks 47th among the 50 states and the District of Columbia in spending per pupil ($7,886, against an average of $11,397). It ranks last in the number of students per teacher: California's legislative analyst estimates that most classes have 28-31 pupils. And it ranks 42nd in the proportion of pupils who graduate (63%, against a national average of 69%).

Indeed, it would appear that California, at some point in the past generation, must have decided to disinvest in its children and to reallocate resources to such things as prisons. When Mr Mockler first started examining school finance in the 1960s, California spent about 5.6% of personal income on schools. It now spends 3.5%. For a state that sees itself as a pioneer of the global "knowledge economy", that seems bizarre.

So who made this decision? Or, as John Syer, a professor at California State University, puts it sardonically: Who might be accountable for the bad schools? Is it local school boards, or the state board, or the education secretary, or the superintendent of public instruction, or the governor, or somebody else?

Start with the governor, who is elected, as in all 50 states. He appoints a secretary of education, a member of his cabinet. Oddly, however, that secretary (and thus the governor) does not have much power in this area. For the state's education department is headed by a superintendent of public instruction, who is directly elected and thus answers only to voters, not to the governor. He in turn chairs a state board of education (the other members of which are again appointed by the governor).

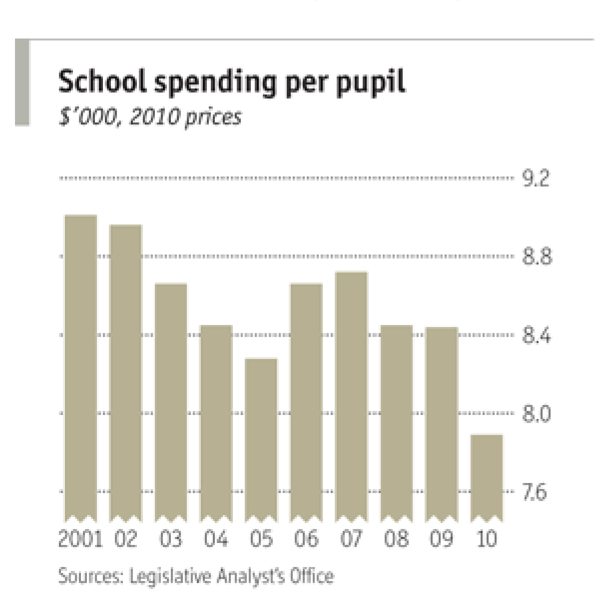
Californians, in fact, insist on this sort of confusion in their entire executive branch. Thus they directly elect eight statewide officers (governor, lieutenant governor, attorney-general, secretary of state, controller, treasurer, superintendent and insurance commissioner). Often these officers are at war with one another. For the two decades starting in Jerry Brown's second term, and again during most of Arnold Schwarzenegger's tenure, the governor and his lieutenant even belonged to different parties.

In this respect California is again unusual. Only 14 states separately elect a superintendent of public instruction, 12 a controller and ten an insurance commissioner. If democracy is about holding elections, the Californian mantra is: the more the merrier. This is especially true for education. Most power over the day-to-day running of schools belongs to the roughly 1,040 school districts. These are separate jurisdictions from cities and counties and have their own boards whose members are elected locally.

Yet in allocating responsibility for the prevailing mediocrity, all of these officials can plausibly point accusing fingers at voters. After all, they adopted Proposition 13, which cut the schools' main revenue source (property taxes). Voters, for their part, usually shrug and say that they only voted against the taxes, not against the services those taxes paid for. To prove that point, whose irony often eludes Californians, voters passed still more initiatives to restore the school spending whose tax financing they had cut.

The main such measure, on the 1988 ballot, was called Proposition 98. Its main sponsor was the California Teachers Association, the largest spender in Californian politics, which hired Mr Mockler to draft it. His original text, as he now describes it, was still simple enough to be comprehensible: "You [ie, schools] get what you got last year, adjusted for the increase in students and the increase in personal income per capita." So school spending would generally rise in line with demand and affordability. Mr Mockler added a provision that, following good fiscal years, the base would be reset at a higher level so as to put a floor under school spending yet allow the possibility of additional growth.

Proposition 98 narrowly passed, sending yet another challenge to the beleaguered legislature. It now had to find money in the budget to comply with Proposition 98, even though Proposition 13 and other initiatives had taken away most of the main revenue source and now required supermajorities to raise other revenues. So in a sort of capitulation to the ballot box, the legislature itself put yet another measure, Proposition 111, on the 1990 ballot. Its intent was to make Proposition 98 more flexible so that the legislature would be able to pass budgets once again. But that is not quite how it turned out.



According to Mr Mockler, it was Proposition 111 that finally made the overall structure for education funding incomprehensible. It multiplied by six the "data sets you need to know" to calculate education spending, he says. He compares the resulting package of legislation to the general theory of relativity, quantum physics and the federal tax code in complexity, and reckons that he is currently one of ten people alive who understand Californian school finance. In a typical budget season, the state's nonpartisan legislative analyst dutifully produces tomes analysing whether "test 1" or

"test 3" applies, and whether the "maintenance factor" might kick in. Nobody really knows what that means, as the legislative analyst concedes in the official primer.

There is a lot to contemplate in this tale. First, what made voters think that they understood enough to pass any of these initiatives, given that nobody understands their results? Second, why did voters not become concerned about the ever denser thicket of unintended consequences? As Mr Mockler says, the need for Proposition 111 arose only because of Proposition 98, and the need for 98 arose only because of 13.

The unintended consequence of that overall bundle has been to invert the stated purpose of Proposition 98. Originally designed to be a floor under school financing, it has instead become a ceiling. No legislature will nowadays raise school spending any more than necessary, because the formulas would then require even greater increases the following year. (Journalists usually take a shortcut through all the calculations and simply say that Proposition 98 requires "about 40%" of the general fund to go to schools.)

Mr Mockler has been thinking about all this for decades. He drafted one of the most important ballot measures ever. And yet he calls the entire initiative process "mob rule" and blames it for keeping the state's schools down. "If you put an initiative on the ballot that repealed every initiative of the past 40 years, I'd vote for it," he says. The question of who is accountable for California's mediocre schools has a surprisingly simple answer: everybody, which is to say nobody.

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How voters decide

What do you know?

Citizens are not as well-informed as they think

"A POPULAR GOVERNMENT without popular information or the means of acquiring it is but a prologue to Farce or Tragedy or perhaps both," James Madison wrote. "A people who mean to be their own Governors must arm themselves with the power knowledge gives." The question in any democracy, but especially a direct democracy in which citizens legislate at the ballot box, is how much voters do in fact know.

A prior question may be what voters think they know. When the Public Policy Institute of California (PPIC) polled Californian voters in December, just after the most recent election, fewer than half the respondents said that they had confidence in their fellow voters to make public-policy decisions at the ballot box. This was the first time in PPIC's polling that a majority appeared sceptical about the initiative process. But voters seem to be more concerned only about the state of other voters' knowledge, not their own.

This must be why most respondents to the same poll said they were either "very happy" or "somewhat happy" that they had nine measures to decide on this latest ballot. This response was similar to that in 2008 (12 measures) and 2006 (13). Many Californians believe that the initiative process needs major (42%) or minor changes (34%). But two-thirds of voters are generally "satisfied" with the way it is working.

This implies that voters are reasonably confident in their own understanding of the state's affairs. Indeed, in another poll in January a majority of likely voters told PPIC that they have either "some" or "a lot of" knowledge about how state and local governments spend and raise money.

But when presented with a list of the state's four biggest spending categories, only 22% of likely voters correctly named public schools as the largest. The most guesses (41%) went to prisons, which are actually the smallest category of the four. More specifically, the largest group among those who expressed confidence in their own knowledge incorrectly chose prisons as the biggest item.

Their grasp of state revenues was no better. Only one in three likely voters correctly named the personal income tax as the main source of money, with many choosing motoring charges (a paltry 2% of state revenues). Only 9% of likely voters

correctly identified both the largest revenue source and the largest spending destination. As PPIC drily summarises, "most Californians' views about the budget are not based on an understanding of where the money comes from and where it goes."


Ask me about Proposition 13

This was a very general knowledge test, but individual ballot measures require much more detailed understanding. So a different survey, the Field Poll, on two occasions in recent years asked specifically about the most famous initiative of them all, Proposition 13. Since voters passed it in 1978, it has remained in the news constantly because it touches every aspect of state policy and finance. One of the most basic facts about Proposition 13 is that it applies the same tax cap to all property, whether residential or commercial. A recurring reform proposal would introduce a "split roll" so that commercial property can be taxed differently. Proposition 13's defenders then hit the airwaves to denounce the proposal. In short, it is hard to miss the fact of equal treatment for all property. So the Field Poll asked what it considered the easiest question: whether Proposition 13's tax reduction applied "only to residential property taxes, only to commercial property taxes, or both". Only about one in three respondents correctly answered "both".

However, the main surprise was hidden in the details. Political scientists normally assume that the older, more educated, wealthy and attentive voters are, the better informed they will be. But Kimberly Nalder, a professor at California State University in Sacramento, discovered that in this instance the opposite was true. The factors that usually indicate greater knowledge instead predicted "not only a lack of accurate understanding but actual misinformation".

Thus Ms Nalder found that the best-educated (those with more than a master's degree) were most likely to answer incorrectly that Proposition 13 applies only to residential property. Those with the least education (high-school dropouts) were most likely to get it right. Similarly, those who were already of voting age when Proposition 13 passed were most likely to answer incorrectly and the youngest correctly. The same pattern held for income, with wealthier respondents being more likely to be misinformed. Perhaps most intriguingly, the largest group among homeowners (who directly benefit from Proposition 13) were misinformed, whereas the largest group of renters (who do not benefit) answered correctly.

These results are puzzling and troubling. As Ms Nalder suggests, perception (as opposed to knowledge) of issues such as Proposition 13 appears to have more to do with "self-interest and a potential blindness to issues outside of one's own experience" than with the content of the legislation. This would explain why those respondents who were "non-citizens" or "registered elsewhere" (probably recent arrivals) were more likely to give the correct answer than voters who are registered where they live.

It's all too difficult

The longer that people live in California, it seems, the more likely they are to be misinformed, and possibly brainwashed into ignorance. The supporters of Proposition 13, says Mr Nalder, have for three decades framed the debate as the "little guy versus the established powers", with images such as that of a grandmother being taxed out of her home. Homeowners who are happy with their low property taxes might therefore ignore the fact that large firms, trusts and hedge funds which own commercial property benefit just as much, because that would "disrupt that clean narrative". They also ignore the fact that property taxes elsewhere are high.

In theory, the solution to this misinformation already exists. It is the official voter-information guide issued by the secretary of state before every election. It is genuinely impartial and thorough. But it is also daunting. Depending on the number of ballot measures, it can be a tome and the perfect way to spoil a weekend. Only one in three voters told the PPIC that it was the "most helpful" information source in their decision. (Moreover, they did not specify how much of it they had actually read.)

The rest said they relied on advertisements, the internet, media coverage and the like. What this mostly means is attack ads, financed by the opposing campaigns and their proxies. In the run-up to an election all of California turns into a shouting match, with union members (or environmentalists, or marijuana lovers, or whoever) taking to the roads and shoving signs ("Yes on 19!", "No on 23!") under windscreen wipers. At home the robocalls continue the onslaught. In such an atmosphere Ms Nalder's findings about misinformation should not be all that surprising. For amid all this confrontation, there is virtually no deliberation and analysis.

Many voters are conscientious. They try to read the wording of the initiative, but find it forbidding. The language is dense legalese, often containing double or triple negatives. And the measures have inexorably been getting longer. In the 1980s each typically contained between 1,000 and 3,000 words, which seems more than long enough. But nowadays they often exceed 10,000 words apiece. Two measures on the 2006 ballot weighed in at more than 17,000 words (half as long again as this special report). And one ballot can contain a dozen of these.

So it is surprisingly common for a voter to cast a yes ballot when he means no, or vice versa. In one notorious example from 1980, the label on a measure was "rent control" (later changed to simply "rent"). It was in fact an initiative by landlords who wanted to get rid of rent control. A later study revealed that 23% of voters wanted to preserve control but mistakenly voted yes, and that 54% were against rent control but voted no. The initiative was thus lost when it should have been won.

Indeed, voters constantly complain that initiatives are too complicated. Two out of three told the PPIC poll in December that the wording of the initiatives was confusing. But over-complex language is only one worry in a process where every statute and constitutional amendment interacts with every other to shape policy in this huge state. It raises the more general question of how large, diverse and dispersed populations filter information and arrive at decisions. "If those most likely to think they have a grasp on political information are in fact wrong," says Ms Nalder, there may be a need to "think twice about the wisdom of direct democracy".

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What next?

Burn the wagons

California must move before its next crisis

CALIFORNIA IN THE 21st century faces a question that would fascinate the classical and Enlightenment thinkers who influenced America's founders. Most of them stipulated that participatory democracies must be small. Their populations should be culturally homogeneous. And they must be virtuous.

California, though, is the most populous and diverse state in America, and no more or less virtuous than any other modern society. The historical achievement of America's federal constitution was to create a republican structure that would

preserve liberty and stability even in a large and diverse society. The price was to make democracy indirect and less participatory. Can California avoid paying that price?

This special report has shown how one of the three ingredients of direct democracy, the initiative process, has, cumulatively over the past three decades, caused much of the dysfunction that paralyses California whenever it suffers an economic shock, as it is doing at present. Does it follow that California must get rid of the initiative process?

It is a moot question because Californian voters would never agree (in what itself would have to be an initiative) to end initiatives. Ronald George, California's former chief justice, says that "people will never vote to give up their own power." The best we can hope for is to make the process "less extreme".

That, indeed, may be all that is required. In Switzerland, whence California imported the idea, the initiative process works well. In some of the other 23 American states that practise some variant, it works better than in others. So the problem is not direct democracy as such, or even the initiative process, but the details of its Californian variant. It needs to be fixed, not eliminated.

The main goal of reform must be to make the initiative process and the legislature work together, rather than against each other. That is the only way to stop what Bruce Cain at Berkeley and Roger Noll at Stanford call the "downward cycle of legislative failure and initiative reaction". The idea is to allow and encourage dialogue in law-making-between voters and the legislature, and among the special interests.

One option is to encourage referendums and to discourage initiatives. Referendums, by passing popular judgment on acts of the legislature, do not subvert representative democracy but hold it accountable. Initiatives, which are themselves legislation, can damage representative democracy. California would not be in its current mess if referendums, not initiatives, had become the main expression of direct democracy in the past century.

Initiatives should not only be rarer but also shorter, argues Bob Stern, the president of the Centre for Governmental Studies in Los Angeles. Their language should be simpler, so that more voters understand what they are deciding. As in Switzerland, the legislature should get a first look at any draft and be allowed to respond with its own alternative, or to refine the wording.

Once an initiative has run through these filters and succeeds on the ballot, the legislature must be able to revisit the subject in due course. California should consider allowing initiatives only to enact statutes, as many other states do, not amend the constitution. Another practice used in other states is to "sunset" all initiatives-after a decade, say-by requiring explicit reauthorisation from voters or the legislature. This, too, offers protection against unintended consequences that usually reveal themselves only with time.

Together, these steps are likely to minimise the greatest problem with the initiative process, ballot-box budgeting. But reform must make this goal explicit. All initiatives must be clear about their effects on taxation and spending. A measure must indicate where the necessary revenues are to be found, or what other programme is to be cut. Today, "people vote for initiatives out of emotion, they do not realise that initiatives cost money," says Karen Bass, the former assembly speaker. Once they understand the economic trade-offs, their emotions are likely to cool.

Because problems in the initiative process and the legislature are like chicken and egg, any reform must simultaneously deal with the representative arm of democracy too. That part, in fact, has already begun. Gerrymandering has ended as an independent commission is due to redraw the map for candidates for the first time this summer. The next primary election will be open to all voters irrespective of party affiliation. And an initiative to modify, if not eliminate, term limits on legislators will be on a ballot next year.

But reform should go further. Its aim should be to re-invest the legislature with the credibility it once had. Californians should make it bigger so that each lawmaker represents roughly as many constituents as his counterparts in other states do. And they should make the legislature unicameral, as Nebraska's already is. America originally imported the idea of two chambers from Britain, where the bicameral system balanced two inherently different social classes (commons and lords). At the federal level, America applied that system to balance different sources of legitimacy (the people and the states). But California has nothing analogous to balance between the two chambers, so they just cause confusion.

The executive branch, in turn, must become more accountable. It might seem, but is not, paradoxical that this means electing fewer statewide and local officers and giving them more power. "I currently have 22 people I elect to represent me at all levels of government, and I can't name them-and I'm president of the California Voter Foundation," laments Kim

Alexander, an expert on voter education. Ideally, Californians should elect just one statewide executive, the governor, and let him appoint the other seven. The people can then re-elect or fire the governor for his choices.

The recommendations above are essentially the same as those *The Economist* made in 2004 when it last examined California in a special report. It is encouraging that some of these steps (such as redistricting and open primaries) have already been taken, others are well under way and yet others are attracting increasing support among the policy elite.

But the urgency of reform has increased since 2004. Then, California was bouncing back from an economic shock (the dotcom bust) and entering several fat years when reform might have been less painful. Because the opportunity was (mostly) squandered, California remained unprepared for the current, and more severe, shock. It must not wait for another cycle to turn.

Because so many reforms-in the initiative process, the legislature and the executive-must be tied together to have a chance of working, it is tempting to call a constitutional convention. America as a whole has not had one since 1787, but many of its states hold them quite frequently. Alaska, Connecticut, Georgia, Hawaii, Illinois, Louisiana, Michigan, Missouri, Montana and Rhode Island are among those that have had at least one since the second world war. California has not had one since 1879. The risk, however, is that in California such a convention would deteriorate into the same old food fight among the special interests, which tend to oppose reform.

The alternative is to use the same ballot box that has caused so much of the trouble. Indeed, many of the recommendations made above are being discussed by a new group called the Think Long Committee for California. Funded by Nicolas Berggruen, a wealthy international investor, this committee, half a year old, already has unrivalled cachet. George Shultz and Condoleezza Rice, Arnold Schwarzenegger, Google's Eric Schmidt-all the state's great and good seem to be part of it. Their deliberations will result in a string of initiatives that will be put before voters in 2012 and beyond.

Change has a better chance of coming about this way than through a constitutional convention. Thanks to Mr Berggruen's support-he has already committed a first dollop of $20m-the effort will not fail for lack of money (the fate that befell a push for a constitutional convention last year). The risk is instead that voters will pass some reforms but not others, not realising that they must be integrated.

One way or another, the next few years in California might see perhaps the liveliest debate about freedom and governance since Federalists and Anti-Federalists argued in 1787-88 about whether or not to ratify America's new constitution. Lovers of democracy and liberty everywhere still study that old debate. They will now also pay attention to California's, for it will provide lessons for everyone.

Such a global spotlight may elevate the debate as Californians are reminded of their responsibility. They may even rediscover the spirit of pioneers such as August Schuckman, the current governor's great-grandfather-the man who came to California in pursuit of his life dream but had to brave the unforgiving deserts during his wagon trek, losing oxen, horses and mules along the way. When it became necessary, his group burned its abandoned wagons, then moved on and built a state. After the past few years of hardship, Californians might just be ready to do something equivalent today.

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Offer to readers

Johnson & Johnson

Looking for a Band-Aid

It will take more than a deal, even a $20 billion one, to fix Johnson & Johnson



Every child knows the tactic. When you are in trouble over one thing, cause a stir over another. On April 15th the Wall Street Journal reported that Johnson & Johnson (J&J), a giant health-care company, was in talks to buy Synthes, a medical-device maker. Neither company would comment, letting speculation swirl until Synthes confirmed the rumour three days later. The deal, said to be worth about $20 billion, would be the biggest in J&J's 125-year history. But it may not be enough to patch up the company's problems.

J&J's recent troubles have been epic in scale. On April 19th there was a moment of relief when the company told analysts that this year's earnings would be far higher than they expected. However, the first quarter's earnings were 23% below their level last year. And J&J remains a public-relations nightmare. This is astonishing, given the firm's history. J&J's brands, including Tylenol, No More Tears shampoo and Band-Aid, are among America's most trusted. In the 1980s its swift recall of Tylenol capsules, after some packs had been laced with poison, made it a model for crisis management. But recent years have knocked J&J off its pedestal as one of America's most venerated companies.

In 2008 J&J's contractors began removing defective supplies of Motrin, a painkiller, from store shelves, but the company did not announce a recall until months later. In late 2009 and early 2010 J&J publicly recalled over-the-counter drugs such as Tylenol, Rolaid and Benadryl. The drugs smelled odd, thanks to traces of chemicals used to treat wood. April 2010 brought a recall of children's liquid medicines. J&J said it would close the Pennsylvania factory where they were made. And yet the recalls continued. There were cracked syringes and more smelly pills, leaky insulin cartridges and Rolaid tablets flecked with metal particles. In August 2010 a J&J subsidiary recalled artificial hips, rather more difficult to remove than a pill bottle from a cabinet. Lawsuits claim the subsidiary knew of defects, yet failed to act. It denies this.

If any company could withstand such problems, it is J&J. It has a wide portfolio of products and, last year, sales of $62 billion. But the product recalls have battered a company not used to being pushed around. William Weldon, the chief executive, was berated at a congressional hearing in September. J&J's stock fell by 4% last year, as the S&P 500 index rose by 11%.

Executives insist that J&J is on the mend. Last July the firm sent the Food and Drug Administration (FDA), its American regulator, a "comprehensive action plan" to resolve manufacturing problems. Under an agreement signed last month, the FDA will oversee three J&J plants for the foreseeable future. However, progress on the action plan may be slow, and expensive: on April 19th Dominic Caruso, J&J's chief financial officer, said that its costs would turn out twice as high as first expected.

If the deal happens, Synthes could give J&J a sorely needed boost. The company makes discs, screws and rods to piece together broken bones, controlling 53% of the world market for products for traumatic injury, says Matthew Dodds, an analyst at Citigroup. It would thus fit well into J&J's medical-devices business and make it twice the size of its nearest competitor in such orthopaedic implants. This may prompt antitrust regulators to look at the proposed deal but, so far, industry analysts expect them to approve it. With $28 billion in cash, J&J can certainly afford Synthes. And it has plenty of experience in growing through acquisitions: David Lewis of Morgan Stanley reckons it has spent more than $50 billion on takeovers since 1993.

There is a distinct chance, however, that the Synthes deal becomes a dangerous distraction. In a note to investors on April 6th, Mr Lewis suggested J&J should buy back stock and answer questions about its leadership and quality control before chasing another big deal. But Mr Weldon remains chief executive. And the quality issues, despite recent progress, are far from resolved: J&J's most recent recall was on April 14th. There has been other bad news of late: on April 8th J&J said it would pay $70m to settle charges by the Securities and Exchange Commission that it had bribed foreign doctors to choose its products.

Synthes might even bring its own problems, says Erik Gordon of the University of Michigan, who studies drug companies. In 2009 Synthes announced a settlement with the state of New Jersey, over concerns that clinical investigators did not disclose their financial interests. In November Synthes pleaded guilty to allegations of shipping "adulterated and misbranded" products as part of unlawful clinical trials. "One of the things you worry about in a merger is, is it a cultural fit?" Mr Gordon notes. For Synthes and J&J, he says, that unfortunately may not be an issue.

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Online gambling

Poker face off

A crackdown on internet poker may be a prelude to legalisation



Whaddya mean, your browser's frozen?

"FOREIGN firms that choose to operate in the United States are not free to flout the laws they don't like simply because they can't bear to be parted from their profits." Preet Bharara, the US attorney in Manhattan, did not mince his words on April 15th as he indicted PokerStars, Full Tilt Poker and Absolute Poker, three of the world's biggest online-gambling companies, on charges of operating illegal gambling businesses, concocting an "elaborate criminal fraud scheme", involving tricking and bribing banks, and "massive money laundering". At the same time, America's Department of Justice seized and shut down the firms' main websites, and filed a civil suit for penalties of $3 billion.



On the face of it, this is a devastating blow to those who hoped that online gambling would soon be made fully legal in America and to the estimated 10m Americans who have been gambling online even as their government has insisted that it is illegal. Americans have been significant contributors to the global online-gaming industry's booming revenues, now close to $30 billion a year (see chart). In response to the indictment, outraged poker players swiftly christened April 15th Black Friday. "Online poker is not a crime and should not be treated as such," protested Alfonse D'Amato, a former senator who chairs the Poker Players Alliance, which claims over 1m members.

A debate has gone on for years over whether online poker is in fact illegal in America. A 2006 law, hastily tacked onto the end of unrelated legislation, bans American banks from handling money related to internet gambling. The indictment against the poker sites accuses them of going to great lengths to hide the flow of payments to them, such as by disguising them as purchases of jewellery or golf balls, implying that they must have known they were on the wrong side of the line.

Going legit

Talk of federal legislation to make the industry legal again has so far got nowhere. In the absence of this, several states have moved towards legalising and regulating online gambling within their territory. On April 7th the local government of Washington, DC, said that, to boost its tax revenues, it would do so this summer. By confining access to residents (or at least going through the motions of doing so), it hoped not to fall foul of federal legislation, which only applies to interstate commerce. This announcement may have triggered the indictment the following week, as a demonstration that the government remains committed to enforcing its interpretation of the law, and to send a message to the gaming industry that it should stop planning for a life after prohibition.

On March 24th Wynn Resorts, a casino operator, had formed a partnership with PokerStars with a view to operating online sites jointly. Six days later Fertitta Interactive, a business associated with the owners of Station Casinos, joined up with Full Tilt Poker. Both deals were predicated on online gambling becoming legal. The two offline firms support legislation now before lawmakers in Nevada, the home of Las Vegas, that called for the state's gaming commission to draft regulations for online gambling, to take effect on approval from Congress or the Department of Justice. Both firms scrapped their deals within hours of their partners' indictment.

Although it would appear that the chips are down for internet gambling, the prosecutors' crackdown may in fact turn out to be the last before Congress reverses itself and scraps prohibition. There are prominent supporters of legalisation in both parties pressing for such a change. An attempt to pass new legislation late last year looked promising at first, but folded when Harry Reid, a senator for Nevada, misplayed a good hand. With lobbying from 10m disconnected punters and the big casino companies (which have belatedly realised how much money there is to be made online) plus the enticing prospect of much-needed tax revenues, Congress has plenty of reasons to get its act together, despite the inevitable moral objections of a minority of members.

Legalisation, if it happens, may not come soon enough for the three indicted websites, which are under pressure from customers demanding refunds of their fees. But things are looking far better for those sites that had refused to accept American clients. On April 19th, as fears grew of a liquidity crisis at PokerStars, the privately owned market leader, the price of shares in Bwin.party Digital Entertainment (formed in March by merging Bwin, a sports-betting firm, and PartyGaming, a gaming website) jumped by nearly 30%, restoring some of the value lost last month when Germany proposed steep taxes on online gambling.

PartyGaming had pulled out of America after the passage of the 2006 law. It has been paying off a penalty of $105m under a non-prosecution settlement with the American authorities, for offences it admits to committing before it withdrew. Because it has kept its nose clean of late, will its successor be one of the main beneficiaries if prohibition is ended in the near future? Investors seem to think it worth a punt. But betting on the fortunes of online gaming companies seems every bit as risky as playing their virtual tables.

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Japan's disaster and business reform

A good place to start

The devastated north-east could be a test bed for opening up the economy



Desperately in need of new businesses

THE reconstruction of Japan's Tohoku region, hit by earthquake, tsunami and fears of radiation, risks being held back by red tape and high business costs. For instance, the estimated bill for rebuilding homes in Miyagi, the worst-affected prefecture, is twice as high as it need be, says the owner of a local construction company, because of barriers to importing cheap Taiwanese timber, which Japan imposes to please domestic producers.

So a clever way to speed up the revival of Tohoku would be to turn the region into a special economic zone, where Japan's normal, cumbersome rules do not apply. Such zones are intended as policy Petri dishes: China's tiptoe to capitalism began with the creation of such an area in Shenzhen in 1980. Other developing countries have also used them to experiment with deregulation. Now is a good time for Japan, the world's third-biggest economy, to give the idea a try.

Once the immediate disaster relief is over, the first thing Tohoku will need is more young people. For years its young people have left while the old remained. Japan has refused to have a serious debate on immigration, even as the economy stagnates, in part because of a declining population. Letting in foreigners to work or set up businesses would bring in fresh capital and new ideas.

Lower taxes would also help. In the weeks before the quake on March 11th the government was preparing to cut corporation tax to 35% from 40% (the highest among rich countries). This is now off the table but a special, low rate for Tohoku could encourage firms to rebuild in, or move to, the stricken area.

Since the Fukushima Dai-ichi nuclear plant is to be decommissioned, Japan will need new sources of electricity. If the onerous rules on converting farmland to other uses were waived in Tohoku, land (often wrongly) suspected of being contaminated from the nuclear leak could be turned into fields of money-spinning solar panels. Burdensome rules on special-care nursing homes, which have left more than 400,000 old people languishing on waiting lists, could be eased to provide Tohoku with another growth industry. Likewise if Tohoku were to exempt itself from Japan's ban on gambling. Cutting the red tape that ties up construction projects could speed up the creation of all sorts of businesses.

The most substantial change could be to make Tohoku a free-trade area. The government tried to enter talks on a regional free-trade agreement last year, but was pushed back by farmers, opposition politicians and even its own party. As a result, some manufacturers are muttering about moving to South Korea. Waiving restraints on Tohoku's imports and exports would, more than anything else, spur corporate Japan to invest richly in the region.

Plans for such a business-friendly zone in Kobe after its 1995 earthquake were watered down to almost nothing. Keidanren, Japan's business lobby, recently floated a less ambitious version of the idea. Given Tohoku's devastation, it is worth a try there. If it accelerated the region's recovery, the Japanese might then ask themselves: why not make the whole country a low tax, bureaucracy-free zone?

Huawei

Interesting reading

A Chinese industrial champion opens up a bit on its way to world domination

ANOTHER annual report sent out in the season when countless companies worldwide are publishing them is at risk of being filed in the bin. Not so if the company is Huawei and the report is intended to make a company that reflects the best of China's manufacturing prowess, while being a prime example of its secretiveness, seem normal.

The telecoms-equipment maker's financial performance is impressive enough to make the report worth reading: revenues were 185 billion yuan ($27.4 billion), having grown by an annual average of 29% in the past four years. The growth rate for profits has been 56%. Having just passed Nokia and Siemens, Huawei looks on track to overtake Ericsson, the industry leader, this year.

But it faces some big impediments, perhaps the most important being the concerns of many governments, notably America's and India's, about a private company suspected of links to the security apparatus of a country said to be conducting sophisticated hacking. Because of such worries, Huawei's efforts to buy American companies have been blocked and some sales have been lost.

The report is clearly an effort by Huawei to lay such concerns to rest. For the first time, its directors are named and given brief biographies. The rags-to-riches story of Ren Zhengfei, the chief executive, is fleshed out: the son of rural schoolteachers, he left the army in 1983, founding the company with savings of 21,000 yuan four years later. None of the other directors is said to have military ties. However, a somewhat conspicuous omission from the profile of Sun Yafang, the chairman, is that-according to a report in the *Financial Times*-she used to work for the Ministry of State Security. That three other directors are (according to the Chinese press) closely related to Mr Ren is also omitted.

The report is a bit more forthcoming on the financial help Huawei gets from the state: plentiful cheap loans, some at interest rates of less than 1.7%, and a handy chunk of research grants. The audit of the firm's accounts, by KPMG Huazhen, was unqualified, though the auditor noted that they did not contain all the information needed to meet international accounting standards for a full company report.

Huawei still has some way to go before it satisfies the curiosity of foreign governments, competitors and investors. Even so, the information given in this year's annual report represents a leap forward in openness for the company and for Chinese industry as a whole. In recent years Huawei has decisively dispelled any doubts that it can provide state-of-the-art communications equipment. The job of communicating about itself remains a work in progress.

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Unpaid employment

Inferno for interns

The annual race to the bottom of the corporate ladder begins

SPRING is here: flowers are in bloom, birdsong fills the air, and the inboxes of employers are clogged with desperate pleas for summer internships. College students and graduates are well aware of the impact a plummy placement could have on their careers. With ever fewer entry-level jobs in many industries, internships have become a critical first step into employment. In America, three-quarters of students on a four-year university course will have toiled as an intern at least

once before graduation. Up to half of these gimlet-eyed workers will have given their services free. Some may even have had to pay for the privilege of coming to work.

Unpaid internships seem to be an example of mutual utility: inexperienced youngsters learn something about a chosen field while employers get to farm out some menial work. The arrangement is consensual, and companies often use internships to test potential recruits. But the increasing popularity of these unpaid placements has caused some controversy lately. Nick Clegg, Britain's deputy prime minister, recently launched a crusade to ban them, arguing that they favour the wealthy and privileged. Others complain that uncompensated internships flout labour standards, exploit nascent workers and surely depress wages for everyone else. In America, they tend to be illegal at for-profit companies, according to guidelines set out in 1947. But the Department of Labour barely enforces such rules, in part because interns are often too afraid to file complaints.

Organisations in America save $2 billion a year by not paying interns a minimum wage, writes Ross Perlin in "Intern Nation", a new book about the "highly competitive race to the bottom of the corporate ladder". Perhaps one-third of all internships at for-profit companies are unpaid, and interns now often fill roles once held by full-time employees. "Young people and their parents are subsidising labour for Fortune 500 companies," Mr Perlin comments.

To avoid legal complications, companies often encourage students to work in exchange for academic credits from their college. But such credits can cost hundreds or even thousands of dollars. Some colleges waive their fees or earn them by offering guidance and oversight. For many institutions, however, they are an easy source of revenue, more beneficial to themselves than their students.

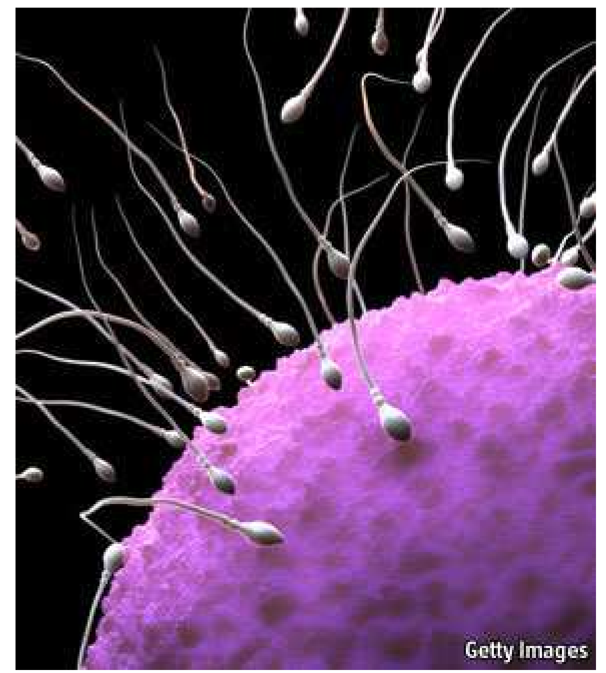
Calls for new labour laws that reflect the growing prominence of internships have got nowhere. Instead, interns will have to look out for each other, for example by rating their experiences on websites such as InternshipRatings and Internocracy. At any rate, students may be buoyed by a rare bit of good news from the National Association of Colleges and Employers: employers intend to hire 19% more graduates this year than last. This should spare some from the drudgery of working without pay.

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The market in human eggs

Underpaid ovaries

An antitrust suit is filed against America's fertility clinics



Competition for eggs is fierce: is it fair?

FERTILITY assistance is a big and profitable business in America. Those needing help to conceive-infertile couples, older women, gay men using surrogate birth mothers-may be charged steep prices by the mostly privately owned clinics. In turn the clinics pay egg donors fees that often run into thousands of dollars. In contrast, an egg donor in Britain can legally be compensated by only the same amount as someone serving on jury duty-pound61.28 (just under $100) a day.

Although American donors are better rewarded than their British counterparts, one of them, Lindsay Kamakahi, has filed an antitrust lawsuit, complaining that the price of eggs has been kept artificially low by guidelines issued in 2000 by the American Society for Reproductive Medicine (ASRM), a body that promotes research on fertility treatments. The guidelines say that payments of $5,000 or more "require justification", and sums above $10,000 "go beyond what is appropriate".

The ASRM and a sister organisation, the Society for Assisted Reproductive Technology (SART), are said in the lawsuit to represent 85% of the country's clinics and egg-donor agencies, and are in a position to make them comply with their maximum-price rule. If they do not, they risk being thrown out of SART and losing its seal of approval, which might discourage potential customers from using them.

Ms Kamakahi argues that these recommended limits were arrived at by simply taking sperm donors' pay rates-men get between $75 and $93 an hour for their contributions-then adjusting for the extra clinic time involved in making an egg donation. (These rates have remained unchanged in America for the past decade.)

However, donations of eggs, unlike those of sperm, take a lot more than a porn magazine and a plastic cup. Before arriving at a clinic to make donations, women have to inject themselves for three weeks with medication. They are called in to give blood samples and undergo vaginal ultrasound tests. Then, on the day of donation, they undergo an uncomfortable extraction procedure which involves a very long needle and punctured ovaries. In the best cases, it takes a day to recover; in the worst, they end up in hospital. Ms Kamakahi argues that any price that does not take that extra commitment and suffering into account is a price that is restrained.

Ms Kamakahi's lawyers argue that the industry's agreement to keep prices low constitutes a "conspiracy in restraint of trade", in breach of antitrust law. They say that the anticompetitive pricing arrangements mean that, while Ms Kamakahi and other egg donors have been prevented from earning their due, the clinics have been reaping extra profits. The lawsuit puts revenues from the egg trade at $80m a year.

A spokeswoman said the ASRM had not yet been served with the lawsuit as far as she knew. Thus it was unclear exactly what it will be defending itself against. The ASRM presents its pricing advice in ethical terms, arguing that offering too much money to women might induce them to offer their eggs against their own best interests-a principle that underpins limits on payments in many other countries. The society also points out that since egg recipients have to cover the cost of the eggs (which is often billed separately), the price restraint is passed on to clinics' customers in the form of lower overall costs. Ms Kamakahi's lawyers will presumably urge the courts to see through all this and treat it as price-fixing, pure and simple.

Out-of-home advertising

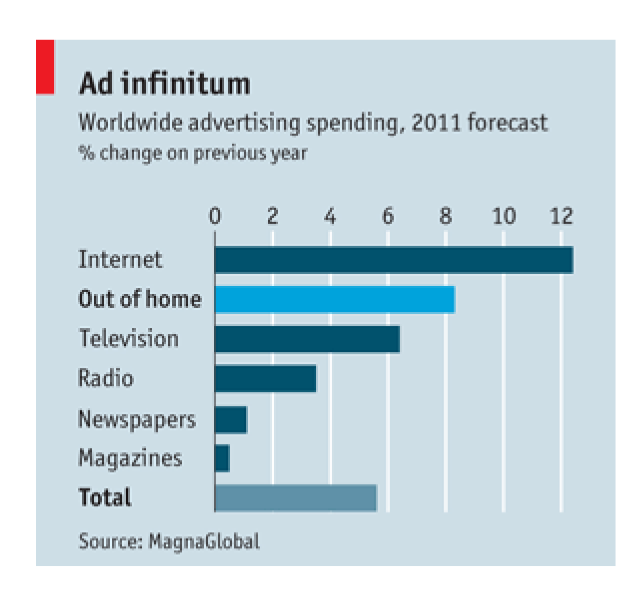
Billboard boom

The future of out-of-home advertising is rosy, and digital



All it lacks now is a drinks dispenser

ROADSIDE billboards, posters on buses and subway escalators, ads in airport terminals-a type of publicity known as out-of-home advertising-used to be the dull end of the industry. No more. The falling price and improving quality of flat-screen displays mean that static posters printed on paper are being replaced by snazzy digital commercials with moving pictures, sound and sometimes interactive features. As some advertising media, especially newspapers, see their audiences fade, streets, airports and other public spaces are becoming crowded with more potential viewers than ever, as people continue moving to cities and travel more.



MagnaGlobal, a media researcher, predicts that worldwide spending on out-of-home advertising will expand by 8.3% in 2011 to about $26.4 billion, faster growth than that seen for other non-internet forms of advertising (see chart). Spending on digital billboards and posters is expected to double in the next five years, to $5.2 billion. William Eccleshare, who runs

the international operations of Clear Channel, an American firm which is one of the largest out-of-home ad companies, thinks that in some countries more than 90% of its business will be digital by the decade's end.

His arch-rival, Jean-Charles Decaux, the boss of France's JCDecaux, agrees that there will be a significant switch to digital, but mainly inside airports, railway stations, shopping malls and other controlled environments. Ads in bus shelters and other outdoor spots at risk of vandalism will take a lot longer to move away from paper, Mr Decaux thinks. Digital displays already account for about one-quarter of his company's sales in transport hubs, but for less than 5% in street furniture and billboards.

The pace of the switch to digital is but the least of several areas of disagreement between the two men. JCDecaux boasted in February that it had overtaken Clear Channel to become the world's largest out-of-home ad company, with revenues of euro2.4 billion ($3.2 billion) last year. "It is rare that a European media company is bigger than an American one," says Mr Decaux. Because his group is less indebted than the others, Mr Decaux says it could consider buying the American operations of CBS Outdoor, the world number three, or indeed those of Clear Channel itself, if the opportunity arose.

Mr Eccleshare dismisses such provocative talk, noting that Mr Decaux has repeatedly talked of big acquisitions in America-where it is a weak number four in the market-without anything happening. He acknowledges that there will be consolidation in the highly fragmented industry, though he expects it to take place within, rather than across, national borders. For instance, China has 60,000 out-of-home advertising firms, many of them microbusinesses with one or two signs, and is clearly ripe for rationalisation.

Clear Channel is so optimistic about digital posters because it believes they offer enormous potential for making advertisements more effective. Advertisers can tailor their pitch to the time of day: McDonald's can advertise its sausage and egg McMuffin at breakfast time, change to its regular Big Mac fare at lunch and follow that with ads for apple pie and ice cream during teatime. They can also react to events as they happen: when Spain won the football World Cup last year, digital billboards in Madrid, sponsored by Nike, showed the result within seconds.

Advertisers constantly talk about wanting to "engage" with consumers, so they are taking great interest in the potential for interactivity that digital technology will bring. JCDecaux, for example, is offering a free iPhone application called U snap: when a consumer sees a poster (paper or digital) for something that attracts his interest and takes a photo of it on his phone, the app recognises it, gives him product information and discount vouchers and directs him to the nearest retailer.

Then there is "gladvertising" and "sadvertising", a rather sinister-sounding idea in which billboards with embedded cameras, linked to face-tracking software, detect the mood of each consumer who passes by, and change the advertising on display to suit it. The technology matches movements of the eyes and mouth to six expression patterns corresponding to happiness, anger, sadness, fear, surprise and disgust. An unhappy-looking person might be rewarded with ads for a sun-drenched beach or a luscious chocolate bar while those wearing an anxious frown might be reassured (some might say exploited) with an ad for insurance.

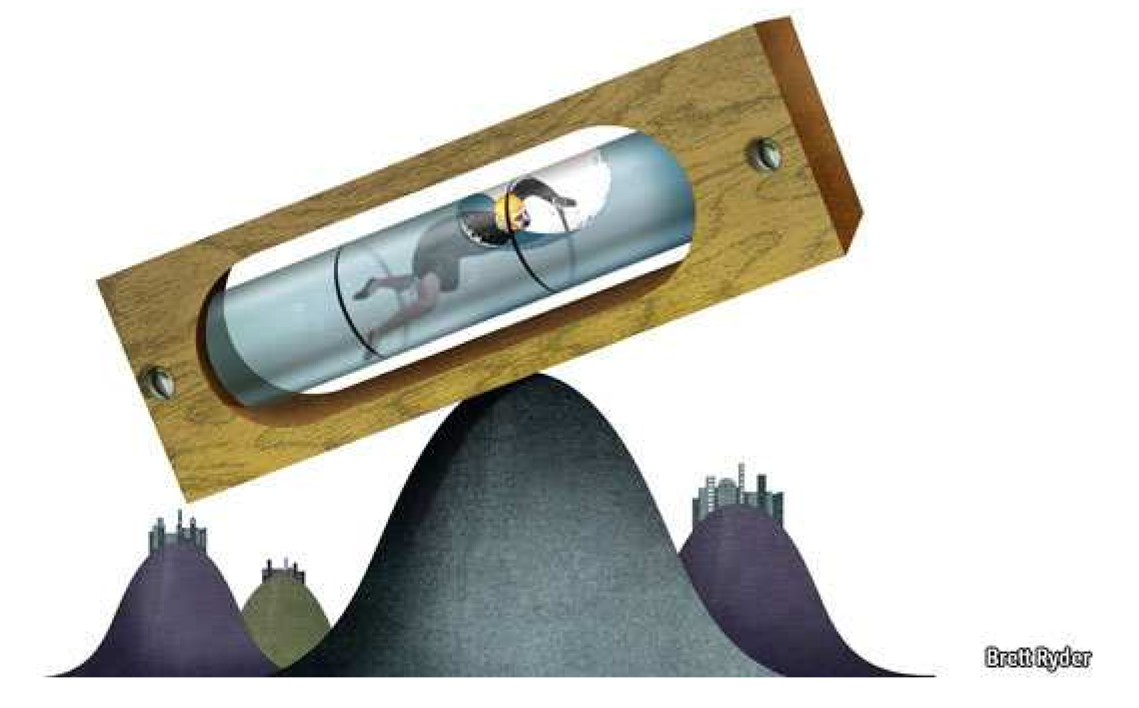
Such Big Brotherish software would no doubt detect a satisfied grin on the faces of out-of-home advertising bosses as they contemplate the next 18 months, in which a string of big events will boost their business: the Rugby World Cup, the American presidential election, the Euro 2012 football championship and the London Olympics. Wherever you go-the street, the subway, the airport or the bus station-there will be no escape from ads linked to these events, and the out-of-home advertising firms will be raking it in.

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Schumpeter

The case against globaloney

At last, some sense on globalisation



GEOFFREY CROWTHER, editor of *The Economist* from 1938 to 1956, used to advise young journalists to "simplify, then exaggerate". He might have changed his advice if he had lived to witness the current debate on globalisation. There is a lively discussion about whether it is good or bad. But everybody seems to agree that globalisation is a fait accompli: that the world is flat, if you are a (Tom) Friedmanite, or that the world is run by a handful of global corporations, if you are a (Naomi) Kleinian.

Pankaj Ghemawat of IESE Business School in Spain is one of the few who has kept his head on the subject. For more than a decade he has subjected the simplifiers and exaggerators to a barrage of statistics. He has now set out his case-that we live in an era of semi-globalisation at most-in a single volume, "World 3.0", that should be read by anyone who wants to understand the most important economic development of our time.

Mr Ghemawat points out that many indicators of global integration are surprisingly low. Only 2% of students are at universities outside their home countries; and only 3% of people live outside their country of birth. Only 7% of rice is traded across borders. Only 7% of directors of S&P 500 companies are foreigners-and, according to a study a few years ago, less than 1% of all American companies have any foreign operations. Exports are equivalent to only 20% of global GDP. Some of the most vital arteries of globalisation are badly clogged: air travel is restricted by bilateral treaties and ocean shipping is dominated by cartels.

Far from "ripping through people's lives", as Arundhati Roy, an Indian writer, claims, globalisation is shaped by familiar things, such as distance and cultural ties. Mr Ghemawat argues that two otherwise identical countries will engage in 42% more trade if they share a common language than if they do not, 47% more if both belong to a trading block, 114% more if they have a common currency and 188% more if they have a common colonial past.

What about the "new economy" of free-flowing capital and borderless information? Here Mr Ghemawat's figures are even more striking. Foreign direct investment (FDI) accounts for only 9% of all fixed investment. Less than 20% of venture capital is deployed outside the fund's home country. Only 20% of shares traded on stockmarkets are owned by foreign investors. Less than 20% of internet traffic crosses national borders.

And what about the direction rather than the extent of globalisation? Surely Mr Friedman (author of "The World is Flat") and company are right about where we are headed even if they exaggerate how far we have got? In fact, today's levels of emigration pale beside those of a century ago, when 14% of Irish-born people and 10% of native Norwegians had emigrated. Back then you did not need visas. Today the world spends $88 billion a year on processing travel documents and in a tenth of the world's countries a passport costs more than a tenth of the average annual income.

That FDI fell from nearly $2 trillion in 2007 to $1 trillion in 2009 can be put down to the global financial crisis. But other trends suggest that globalisation is reversible. Nearly a quarter of North American and European companies shortened their supply chains in 2008 (the effect of Japan's disaster on its partsmakers will surely prompt further shortening). It takes three times as long to process a lorry-load of goods crossing the Canadian-American border as it did before September

11th 2001. Even the internet is succumbing to this pattern of regionalisation, as governments impose a patchwork of local restrictions on content.

Mr Ghemawat also explodes the myth that the world is being taken over by a handful of giant companies. The level of concentration in many vital industries has fallen dramatically since 1950 and remained roughly constant since 1980: 60 years ago two car companies accounted for half of the world's car production, compared with six companies today.

He also refutes the idea that globalisation means homogenisation. The increasing uniformity of cities' skylines worldwide masks growing choice within them, to which even the most global of companies must adjust. McDonald's serves vegetarian burgers in India and spicy ones in Mexico, where Coca-Cola uses cane sugar rather than the corn syrup it uses in America. MTV, which went global on the assumption that "A-lop-bop-a-doo-bop-a-lop-bam-boom" meant the same in every language, now includes five calls to prayer a day in its Indonesian schedules.

Spot the difference

Mr Ghemawat notes that company bosses lead the pack when it comes to overestimating the extent of globalisation. Nokia, for example, spent years trying to break into Japan's big but idiosyncratic mobile-handset market with its rest-of-the-world-beating products before finally conceding defeat. In general companies frequently have more to gain through exploiting national differences-perhaps through arbitrage-than by muscling them aside.

This sober view of globalisation deserves a wide audience. But whether it will get it is another matter. This is partly because "World 3.0" is a much less exciting title than "The World is Flat" or "Jihad vs. McWorld". And it is partly because people seem to have a natural tendency to overestimate the distance-destroying quality of technology. Go back to the era of dictators and world wars and you can find exactly the same addiction to globaloney. Henry Ford said cars and planes were "binding the world together". Martin Heidegger said that "everything is equally far and equally near". George Orwell got so annoyed by all this that he wrote a blistering attack on all the fashionable talk about the abolition of distance and the disappearance of frontiers-and that was in 1944, when Adolf Hitler was advancing his own unique approach to the flattening of the world.

Economist.com/blogs/schumpeter

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The Chinese in Africa

Trying to pull together

Africans are asking whether China is making their lunch or eating it



ZHU LIANGXIU gulps down Kenyan lager in a bar in Nairobi and recites a Chinese aphorism: "One cannot step into the same river twice." Mr Zhu, a shoemaker from Foshan, near Hong Kong, is on his second trip to Africa. Though he says he has come to love the place, you can hear disappointment in his voice.

On his first trip three years ago Mr Zhu filled a whole notebook with orders and was surprised that Africans not only wanted to trade with him but also enjoyed his company. "I have been to many continents and nowhere was the welcome as warm," he says. Strangers congratulated him on his homeland's high-octane engagement with developing countries. China is Africa's biggest trading partner and buys more than one-third of its oil from the continent. Its money has paid for countless new schools and hospitals. Locals proudly told Mr Zhu that China had done more to end poverty than any other country.

He still finds business is good, perhaps even better than last time. But African attitudes have changed. His partners say he is ripping them off. Chinese goods are held up as examples of shoddy work. Politics has crept into encounters. The word "colonial" is bandied about. Children jeer and their parents whisper about street dogs disappearing into cooking pots.

Once feted as saviours in much of Africa, Chinese have come to be viewed with mixed feelings-especially in smaller countries where China's weight is felt all the more. To blame, in part, are poor business practices imported alongside goods and services. Chinese construction work can be slapdash and buildings erected by mainland firms have on occasion fallen apart. A hospital in Luanda, the capital of Angola, was opened with great fanfare but cracks appeared in the walls within a few months and it soon closed. The Chinese-built road from Lusaka, Zambia's capital, to Chirundu, 130km (81 miles) to the south-east, was quickly swept away by rains.

Business, Chinese style

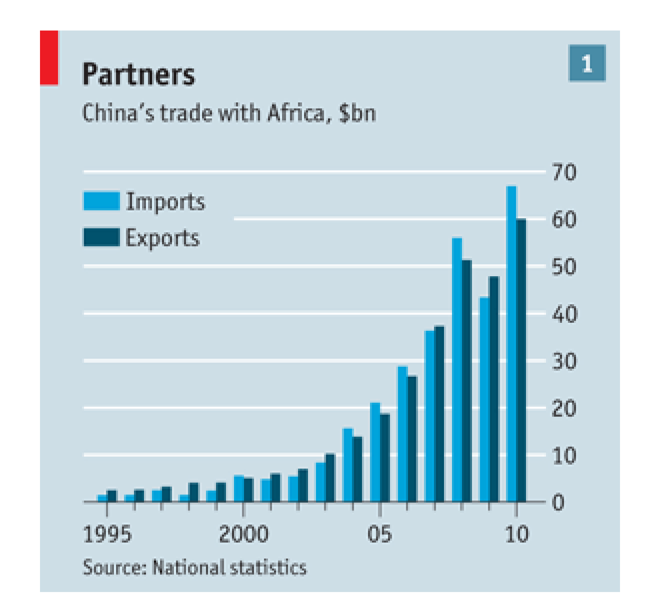
Chinese expatriates in Africa come from a rough-and-tumble, anything-goes business culture that cares little about rules and regulations. Local sensitivities are routinely ignored at home, and so abroad. Sinopec, an oil firm, has explored in a Gabonese national park. Another state oil company has created lakes of spilled crude in Sudan. Zimbabwe's environment minister said Chinese multinationals were "operating like *makorokoza* miners", a scornful term for illegal gold-panners.

Employees at times fare little better than the environment. At Chinese-run mines in Zambia's copper belt they must work for two years before they get safety helmets. Ventilation below ground is poor and deadly accidents occur almost daily. To avoid censure, Chinese managers bribe union bosses and take them on "study tours" to massage parlours in China. Obstructionist shop stewards are sacked and workers who assemble in groups are violently dispersed. When cases end up in court, witnesses are intimidated.

Tensions came to a head last year when miners in Sinazongwe, a town in southern Zambia, protested against poor conditions. Two Chinese managers fired shotguns at a crowd, injuring at least a dozen. Some still have pellets under healed skin. Patson Mangunje, a local councillor, says, "People are angry like rabid dogs."

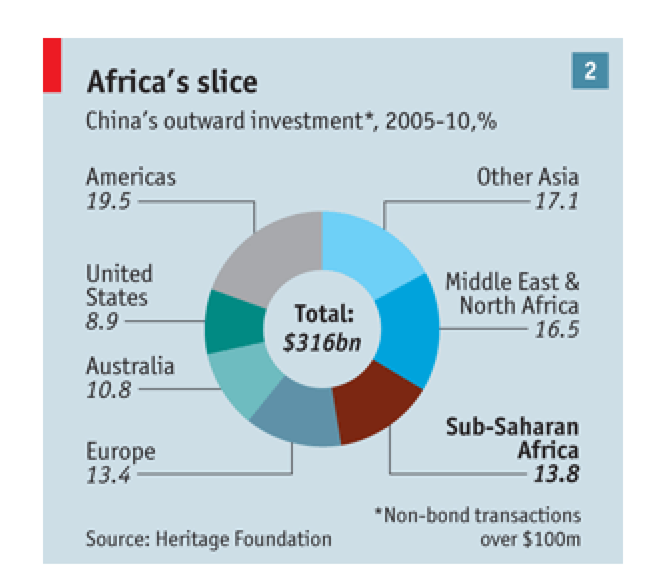
There is anger and disappointment on the Chinese side too. In the South African town of Newcastle, Chinese-run textile factories pay salaries of about $200 per month, much more than they would pay in China but less than the local minimum wage. Unions have tried to shut the factories down. The Chinese owners ignore the unions or pretend to speak no English.

They point out that many South African firms also undercut the minimum wage, which is too high to make production pay. Without the Chinese, unemployment in Newcastle would be even higher than the current 60%. Workers say a poorly paid job is better than none. Some of them recently stopped police closing their factory after a union won an injunction.



"Look at us," says Wang Jinfu, a young factory-owner. "We are not slave drivers." He and his wife came four years ago from Fujian province in southern China with just $3,000. They sleep on a dirty mattress on the factory floor. While their 160 employees work 40 hours a week, the couple pack boxes, check inventory and dispatch orders from first light until midnight every day of the year. "Why do people hate us for that?" says Mr Wang.

Indeed, China has boosted employment in Africa and made basic goods like shoes and radios more affordable. Trade surpassed $120 billion last year (see chart 1). In the past two years China has given more loans to poor countries, mainly in Africa, than the World Bank. The Heritage Foundation, an American think-tank, estimates that in 2005-10 about 14% of China's investment abroad found its way to sub-Saharan Africa (see chart 2). Most goes in the first place to Hong Kong. The Heritage Foundation has tried to trace its final destination.



One answer to Mr Wang's question is that competition, especially from foreigners, is rarely popular. Hundreds of textile factories across Nigeria collapsed in recent years because they could not compete with cheap Chinese garments. Many thousands of jobs were lost.

Mixed blessings

Quite a bit of criticism of China is disguised protectionism. Established businesses try to maintain privileged positions-at the expense of consumers. The recent arrival of Chinese traders in the grimy alleys of Soweto market in Lusaka halved the

cost of chicken. Cabbage prices dropped by 65%. Local traders soon marched their wire-mesh cages filled with livestock to the local competition commission to complain. "How dare the Chinese disturb our market," says Justin Muchindu, a seller. In Dar es Salaam, the commercial capital of Tanzania, Chinese are banned from selling in markets. The government earlier this year said Chinese were welcome as investors but not as "vendors or shoe-shiners".

Another answer, according to China's critics, is that the Chinese are bringing bad habits as well as trade, investment, jobs and skills. The mainland economy is riddled with corruption, even by African standards. International rankings of bribe-payers list Chinese managers near the top. When these managers go abroad they carry on bribing and undermine good governance in host countries. The World Bank has banned some mainland companies from bidding for tenders in Africa.

China's defenders reply that its detrimental impact on governance is limited. African leaders find it surprisingly hard to embezzle development funds. Usually money is put into escrow accounts in Beijing; then a list of infrastructure projects is drawn up, Chinese companies are given contracts to build them and funds are transferred to company accounts. Africa, for better and worse, gets roads and ports but no cash. At least that is the theory.

A third answer is that China is seen as hoarding African resources. China clearly would like to lock up sources of fuel, but for the moment its main concern is increasing global supply. Its state-owned companies often sell oil and ore on spot markets. Furthermore, its interest in Africa is not limited to resources. It is building railways and bridges far from mines and oilfields, because it pays. China is not a conventional aid donor, but nor is it a colonialist interested only in looting the land.

The ambiguities in China's relationship with Africa have created fertile ground for politicians. Opposition parties, especially in southern Africa, frequently campaign on anti-China platforms. Every country south of Rwanda has had acrimonious debates about Chinese "exploitation". Even in normally calm places like Namibia, antipathy is stirring. Workers on Chinese building sites in Windhoek, the capital, are said to get a "raw deal". In Zambia the opposition leader, Michael Sata, has made Sino-scepticism his trademark.



Keeping an eye on the investment

Much of this is wide of the mark. Critics claim that China has acquired ownership of natural resources, although service contracts and other concessions are the norm. China is also often accused of bringing prison labour to Africa-locals assume the highly disciplined Chinese workers in identical boiler suits they see toiling day and night must be doing so under duress.

Even so, the backlash is perhaps unsurprising. Africans say they feel under siege. Tens of thousands of entrepreneurs from one of the most successful modern economies have fanned out across the continent. Sanou Mbaye, a former senior official at the African Development Bank, says more Chinese have come to Africa in the past ten years than Europeans in the past 400. First came Chinese from state-owned companies, but more and more arrive solo or stay behind after finishing contract work.

Many dream of a new life. Miners and builders see business opportunities in Africa, and greater freedom (to be their own bosses and speak their minds, but also to pollute). A Chinese government survey of 1,600 companies shows the growing use of Africa as an industrial base. Manufacturing's share of total Chinese investment (22%) is catching up fast with mining (29%).

In part this spread is happening because Africans have asked for it. Some countries made industrial investments a precondition for resource deals. In Ethiopia two out of three resident Chinese firms are manufacturers. Yet the Chinese did not need much pushing. They have always wanted to do more than dig up fuel when investing abroad. They hope to build skyscrapers in Tokyo, run banks in London and make films in Hollywood. In Africa they can learn the ropes in a region where competition is weak. The continent-soon to be ringed with Chinese free-trade ports-is a stepping stone to a commercial presence around the globe.

To this end, the government in Beijing is encouraging all sorts of activity in Africa. Construction is a favourite, accounting for three-quarters of recent private Chinese investment in Africa. The commerce ministry says Chinese companies are signing infrastructure deals worth more than $50 billion a year. For investment in African farming, China has earmarked $5 billion. A lot of Africans view this anxiously.

Perhaps the most significant Chinese push has been in finance. Industrial and Commercial Bank of China has bought 20% of Standard Bank, a South African lender and the continent's biggest bank by assets, and now offers renminbi accounts to expatriate traders. Other mainland banks have opened offices too, and from their sleek towers they make collateral-free loans to Chinese companies. In theory Africans are eligible to borrow on the same terms, but this rarely happens.

The government in Beijing, which controls the banks, is alert to such criticism. China's image in Africa is sullied by more than just cowboy entrepreneurs, admits an official. Many of the government's own practices could be improved.

Suspect above all is the type of transfer that China offers to African countries. Most loans and payments are "tied"-ie, the recipient must spend the money with Chinese companies. (Japan, Spain and others followed a similar model until fairly recently.) But tied aid leads to shoddy work. With no competition, favoured firms get away with delivering bad roads and overpriced hospitals. Creditors and donors often set the wrong priorities.

Worse, the Chinese government is anything but transparent about its money. Aid figures are treated as state secrets. China Exim Bank and China Development Bank, the main lenders, publish no figures about their vast loans to poor countries. The Democratic Republic of Congo was persuaded at the last minute by international advisers to scale back a Chinese lending facility from $9 billion to $6 billion.

Firm friends

Politics can be even murkier than finance. For years China has been chummy with African despots who seem to be reliable partners. Publicly, China presents its support for odious incumbents as "non-interference" and tries to make a virtue of it. Africans are less and less convinced.

Relations get especially tricky for the Chinese when strongmen fail to maintain stability. In Zimbabwe in 2008 Robert Mugabe's sabotage of elections set off civil upheaval. Chinese investors fled, yet the ascendant opposition still linked them to the dictator. In Sudan Omar al-Bashir, who is wanted by the International Criminal Court on genocide charges, has long been a Chinese stalwart. But following a referendum in January, the oil-rich south of his country has seceded. Rulers in Beijing are belatedly trying to befriend his enemies.

Africans are not helpless in their business relations with the Chinese. Some, admittedly, have not been strong in their dealings: a usually bossy Rwanda lets Chinese investors run riot. But African governments by and large get reasonable deals; and some, like Angola, are masterful negotiators. Its president publicly told his Chinese counterpart, "You are not our only friend." Brazilians and Portuguese are numerous in Luanda, the capital, and Angolans frequently play them off against the Chinese. Angola once banished a Chinese state oil company after a disagreement over a refinery. The company came crawling back a year later, offering more money.



China tries to lead the way in Africa

Increasingly, however, it is the Chinese who play Africans off against each other. Growing policy co-ordination between African embassies in Beijing is a useful first step in improving African bargaining power. The World Bank and the IMF are valuable advisers. But no matter how hard African governments try, they cannot cope with the sheer volume of new enterprises. Rules exist to protect employees and the environment, but institutions are too weak to enforce them. Labour inspectors in Lusaka, who monitor sweatshops, have use of only one car and recently it was broken for four months. In the meantime Chinese engineers built an entire cluster of garment factories from scratch.

For aeons the prospect of China and Africa coming closer together had seemed otherworldly. W.H. Auden wrote:

> I'll love you, dear, I'll love you
> Till China and Africa meet,
> And the river jumps over the mountain
> And the salmon sing in the street.

Sweet-and-sour salmon now regularly croon in sub-Saharan streets. Africans are embracing new opportunities made in China yet remain wary of all the pitfalls.

Western countries too will want to observe the progress of Chinese privateers who cross the Indian Ocean: men like Danny Lau, a 31-year-old from Shanghai, who a year ago followed a group of friends to Zambia, where he is now a successful coal trader and dabbles in property. In a few years, he says, they will move on to a richer continent. What they learn in Accra and Brazzaville will travel with them to Vancouver and Zagreb.

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Singapore's financial rise

Going swimmingly

The city-state has a handy habit of taking advantage of financial upheaval



IN THE 1950s the Bank of China could use 20-year-old architectural designs for its Singapore headquarters near the central post office. From buildings to businesses, things moved slowly in the city-state. Today the picturesque old Bank of China building stands out because little else in Singapore's financial world stays the same.

One change is physical. Citigroup has moved its headquarters from the same district as Bank of China, first to Shenton Way, which now serves as one financial centre, and then to another, known as Suntec City. It will soon join Standard Chartered at a third site, Marina Bay, which has been built on reclaimed land. A fourth centre for back-office workers is opening up near the (excellent) airport. In an area near Chinatown once known for brothels, converted shops now house investment firms, lawyers and the like.

Perhaps the best measure of change is employment. In 1970 Citi could fit every last member of staff, perhaps 100 or so, on a boat for an advertising image. Michael Zink, Citi's Singapore head, keeps a copy of the ad near his desk as he oversees 9,400 workers and counting.

The scale of the transformation has been enough to propel Singapore into the ranks of the world's leading financial centres. As places like London and Switzerland debate whether to welcome bankers or punish them, Singapore has started its own special government school to train private bankers and leased a mansion once used by the British armed forces to UBS to do the same. Credit Suisse has plans for something similar.

Demand for capable people is unquenchable. More than 2,880 financial institutions have registered with Singapore's monetary authority for one activity or another. They include the usual big names as well as a vast array of smaller firms.

One clear thread in Singapore's rise has been its ability to take consistent advantage of global upheavals, beginning in 1971 when America de-linked the dollar from gold. Singapore was quick to grasp this opportunity to create a regional centre for foreign exchange, says Gerard Lee, the chief executive of Lion Global Investors and a former executive at GIC, Singapore's sovereign-wealth fund. Things are no different today: Singapore is positioning itself to grab a chunk of offshore trading in yuan as the Chinese currency gradually starts to internationalise.

Ancillary businesses such as derivatives have thrived. One of the large banks says more than half of Asia's over-the-counter derivative volume in commodities passes through Singapore. According to Barclays Capital, the trading volume of foreign-exchange-related products has jumped 29-fold since 2005 in retail markets alone, and that of interest-rate-related products 43 times.



Similarly, Singapore anticipated the effects of the 1997 handover of Hong Kong. In the early 1990s the environment was so hostile for asset-management firms that only a few existed. That changed. It became easier to open firms and, says one private banker, regulations were structured to avoid costly provisions, notably a tax on transactions. As the handover approached, numerous clients took steps to "book" assets in Singapore. It is now home to more institutional assets than Hong Kong (see chart).

To retain those assets, Singapore produced a legal framework enabling trust accounts, once the preserve of Jersey and Bermuda. This was despite the fact that Singapore itself does not tax estates and Singaporeans have no need of the service. Good trust laws combined with strong asset-management and foreign-exchange capabilities make Singapore appealing for wealth-management types everywhere.

Singapore's approach is the antithesis of laissez-faire. Broadly speaking, it has kept a tight rein on domestic finance and done what it could to induce international firms to come. Licences can be obtained efficiently and quickly, a blessing in a bureaucratic world. So can work visas for key employees. There are tax breaks for firms considered important, as well as reimbursements for relocation expenses.

Bankers and hedge-fund managers talk enthusiastically about an environment that is safe, clean and efficient. The speed of the internet, for example, can be 100 times faster than in China, with its many internal firewalls, and eight times faster than in Hong Kong. Singaporean taxes are low and stable, unlike American and European ones. Foreign firms report that it has become more common to see people rejecting promotions to head offices because pay rises would be wiped out by tax.

Many of these advantages are likely to increase. A widely repeated story in Singapore is that the only people who have read all of America's gargantuan Dodd-Frank financial-regulation act are American academics, who find it a mess, and the Singapore Monetary Authority, which is mulling the opportunities it might create.

And yet, for all its strengths, Singapore has had its failures, too. Most notably, its equity market, often but wrongly thought of as a vital core for a financial centre, has sought listings from China only for many of these "S-chips" to become embroiled in scandals. A few companies have recently delisted from Singapore and relisted in Hong Kong, whose appeal as a gateway to the Chinese mainland is hard to beat.

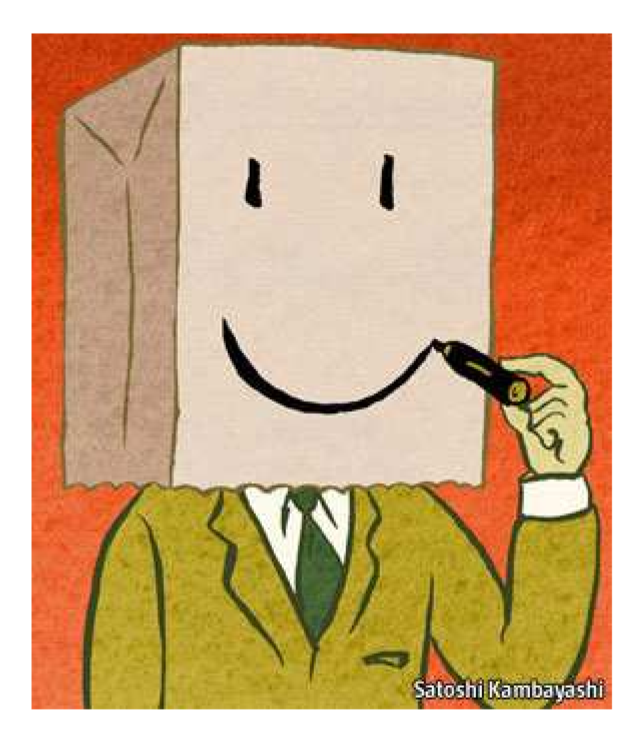
The Singapore Exchange's effort to acquire Australia's exchange was recently rejected on national-interest grounds. That decision may have been partly grounded in the two countries' different financing cultures-Australia's use of tiny, cheap offerings to fund mineral exploration, for instance, and its tolerance of a far more permissive media environment.

Actions in other countries may also constrain Singapore's growth. Already many financial firms there want nothing to do with affluent Americans, given America's forceful approach to global taxation. But to get the better of Singapore others will have to provide a safe environment with low taxes and scant bureaucracy. No need to worry, then.

Buttonwood

The source of denial

How debt problems are constantly explained away



GREECE denied that it was planning to restructure its debt this week (see Economics focus), even as traders in the credit-default-swaps market made bigger bets that it would. A pattern of denial in the face of mounting evidence has been a recurring feature of the debt crisis.

Back in 2005 and 2006 received wisdom denied that the rapid growth of subprime mortgages was a problem. American house prices were extremely unlikely to fall at the national level. In any case, the debt had been widely spread among investors thanks to the derivatives market.

Once the subprime woes became obvious optimists still argued that their economic impact would be limited. The banks downplayed the extent of their exposure to subprime lending. As the scale of their exposure was revealed they switched tack to argue that they had a liquidity, rather than a solvency, problem.

When the banks duly had to be bailed out and debt was transferred from the private to the public sector, a further layer of denials was needed. The finances of governments are not like those of individual households, it was said. Governments have the power to tax and to print money, and have recovered from high debt-to-GDP ratios in the past.

That rationale was undermined by the work of Carmen Reinhart and Kenneth Rogoff, who showed how countries had defaulted on their debts on many occasions in the past. Countries do have a much bigger credit limit than individuals but there is still a cap on their borrowing capacity. The economy must generate enough taxes to service the debt or must have safeguards in place to stop any attempt to inflate the debt away from spiralling into hyperinflation.

Some commentators followed a different tack, arguing that since every debtor is matched by a creditor, losses are offset by gains and so debt does not really matter. But when the debt is secured against an asset, lenders and borrowers can both lose. Suppose that Acme Finance lent $10m to Wile E. Coyote for the building of a roadrunner-meat processing plant. When the plant was built, Acme Finance might feel its loan was secured by an asset. But the coyote's repeated failure to catch roadrunners would leave the plant running idle. Eventually Mr Coyote would go bankrupt and Acme would be forced to write off the bulk of the loan.

As a result, you need to be suspicious of arguments that net debt ratios are more significant than gross measures. Net measures offset the value of assets owned by the debtor against the amount owed. But have those assets been accurately valued? Or is their value dependent on the easy availability of credit, as was true of American houses in the early 2000s?

The European sovereign-debt crisis has produced its own sequence of denials and recantations. Peripheral governments said at first that the banking crisis would not require a dose of fiscal austerity, blaming the rise in their bond yields on speculators and ratings agencies. When yields stayed high, despite austerity programmes, they denied that they would need to seek international financial aid. Once that aid was received, countries felt obliged to rule out the possibility of partial default, the stage that Greece has reached now. But Greece has a solvency, not a liquidity, problem and it is a matter of when, not if, creditors take a hit.

The lesson of this long process of obfuscation and retreat is to place no faith in official statements of reassurance. Debtors will usually claim (and may even believe) they can service their debts, just as alcoholics deny they have a drinking problem. In any case, an early admission of a solvency problem would be akin to informing your spouse of your intention to commit adultery: it would precipitate a crisis rather than avert it.

On April 18th Standard & Poor's put America's AAA credit rating on negative watch. Mary Miller, an assistant treasury secretary, sought to reassure the markets. "We believe S&P's negative outlook underestimates the ability of America's leaders to come together to address the difficult fiscal challenges facing the nation," she responded. But she would say that, wouldn't she?

America is not Greece. It has a much greater chance of growing out of its debt and it has the "exorbitant privilege" of issuing debt in the world's reserve currency. At least its politicians now recognise that something must be done about the deficit, even if they disagree about the solution. But grand plans, like denials, need to be taken with a bucket of salt. Actions will be the best sign that the denial phase is over, not more words.

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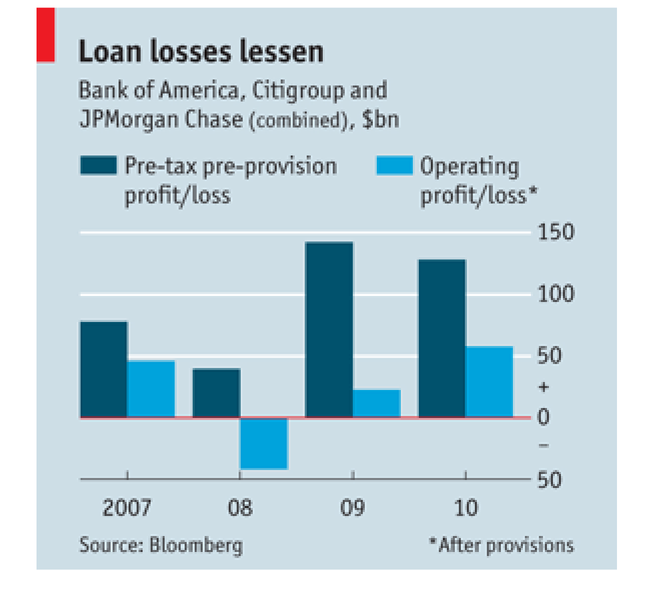
American banks

Where's the growth?

The worst is over for American banks. Shame about the recovery

IN THE second world war America's army developed a reputation for unsentimentally sacking divisional commanders who lost battles. The effect was to clear out the incompetents but also remove those who were merely unlucky. The policy may sound strangely familiar to the chief financial officers of America's banks.

The door has revolved fastest at Bank of America (BofA). It is now on its sixth finance chief in seven years, having announced the appointment of Bruce Thompson when it released lacklustre first-quarter earnings on April 15th. The bank typifies many of the problems facing the industry. Almost all are still reporting steep falls in revenue from investment banking, and commercial banking is proving to be a lot less profitable than it was.



A casual observer could be forgiven for thinking it was a decent quarter, with many banks posting higher year-on-year operating profits. Yet the numbers have been flattered by a steep fall in the provisions that banks have to set aside for loans that may not be repaid, continuing a trend set in 2010 (see chart). Pre-provision revenues look a lot less healthy.

The sharpest falls in income were in investment banking. At Goldman Sachs, BofA and Citigroup, revenues from fixed income, currency and commodity trading, the main contributors to investment-banking profits over the past decade, were up to a third lower than a year ago. JPMorgan Chase stood out by containing its decline to 4%.

Last year may have been one to forget for these businesses but analysts at Nomura believe that banks will be lucky if income from them scrapes the same level in 2011. Nervy clients have cut back on trading, and banks are under regulatory pressure to reduce their proprietary-trading activities. New rules on capital and liquidity are also likely to make these businesses less profitable. Reform of derivatives markets will probably push a lot of the trading of bespoke contracts out into the open, where standardised contracts will offer thinner margins. Legal risks have not gone away, either: the Securities and Exchange Commission is continuing to parlay with Wall Street banks to settle fraud allegations related to the sale of dodgy mortgage-backed securities.

The quarter also points to worrying trends in retail banking. Earnings are being flattered by falling non-performing loans: in credit cards, early delinquencies are the lowest for a decade, according to Nomura. But demand for loans from consumers is weak, especially in areas such as credit cards and mortgages, although banks hope that these will soon start to rebound. Ultra-low interest rates also squeeze the profits that banks can usually make by paying below-market returns to retail depositors.

Here, too, regulatory and legal risks remain. Mortgage lenders and banking regulators reached a settlement this month to review loans where homes were seized and for banks to pay back losses if they were in the wrong. The agreement gives banks two months to draft plans to fix weaknesses in their systems. Negotiations on a separate settlement over foreclosures with attorneys-general from all 50 states continue and could yet result in big financial penalties.

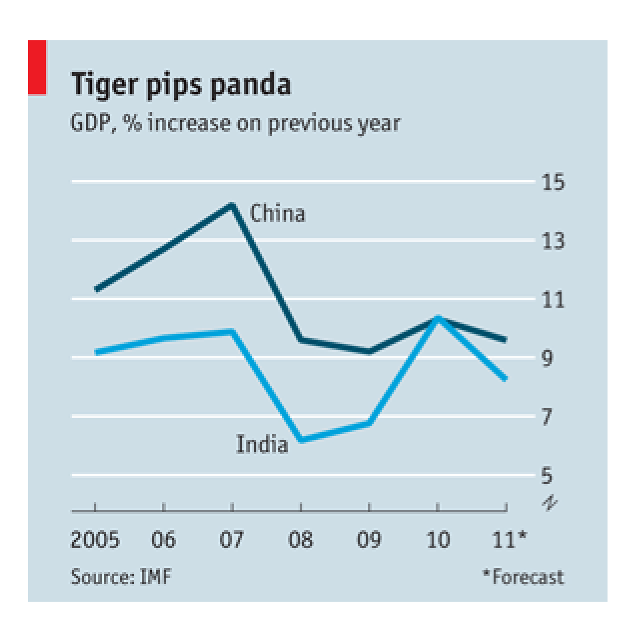
Regulators are also trying to write the final rules that will limit how much banks may charge when retailers swipe debit cards, as well as restricting banks' ability to levy overdraft and other fees on current accounts. Banks are already responding by trying to charge for services that previously appeared to customers to be free: several, including JPMorgan Chase, have proposed monthly fees for accounts. All this adds up to a very uncertain environment, and not just for finance chiefs.

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India v China

The X factor

Which of Asia's emerging giants grew faster in 2010?



MORGAN STANLEY thinks it could happen in 2013; the World Bank thinks it might happen next year. Many pundits have speculated about when India's growth might outpace China's. But the IMF's World Economic Outlook says it's already happened-without fuss, fanfare or felicitation. China grew by 10.3% last year; India by 10.4%. How can that be?

There are two idiosyncrasies in the way India typically reports its GDP figures. It calculates growth for the fiscal year, not the calendar year. More important, it reports its GDP "at factor cost". That means it adds up all the income earned (by labour, capital and other "factors of production") in the course of producing the country's goods and services. By that measure, its GDP grew by 8.6% in 2010.

But other countries, including China, normally report their GDP "by expenditure", adding up all the spending on domestically produced stuff. In principle, expenditure should equate to income. But taxes and subsidies get in the way.

A sales tax adds to the amount you have to spend on a good, boosting measures of GDP by expenditure. A subsidy has the opposite effect. In India net indirect taxes seem to have risen from 7.5% of output in 2009 to 9.2% in 2010. That was enough to lift India's growth by expenditure to 10.36% in 2010, fully 0.06 percentage points faster than China's.

Some bloggers have suggested the 10.4% figure is an artefact of inflation or exchange rates. Not so. GDP was measured in rupees, not dollars, at the prices prevailing in the 2004-05 fiscal year. Nor is the figure an IMF concoction. It drew its data from India's Central Statistics Office (CSO), which estimates GDP using both methods. The country's statisticians prefer GDP by factor cost because it is less prone to revision. The CSO still finds it easier to track production in farms, factories and offices than to track consumer spending or investment.

As India struggles to count its GDP the way most other countries do, China has begun to report its growth rate the way America does (comparing one quarter's GDP with the previous quarter, rather than the same quarter of the previous year). So China grew by 9.7% in the year to the first quarter under its old method of reporting, but by just 2.1%, or 8.7% at an annualised rate, under the new methodology. That is the kind of pace India might well match or surpass, however you measure it.

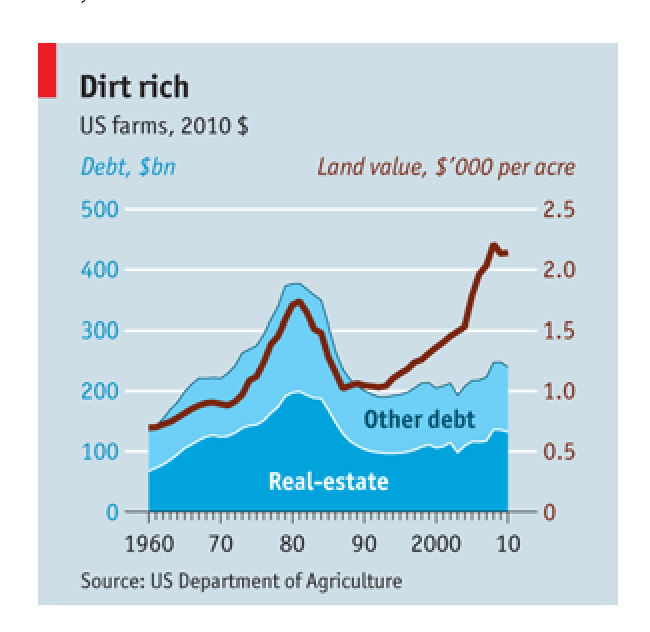
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American farmland

Sowing bubbles

Regulators grow increasingly worried about steep cropland prices

FINANCIAL regulators in America were criticised for doing too little about the country's housing bubble. Now they face an early test of whether lessons have been learned: a farmland boom. The stakes are lower. America's farms were collectively valued at just under $2 trillion last year, compared with $16 trillion for housing. But a bust would still be painful: more than 1,500 of the country's banks and thrifts specialise in agriculture lending. Nobody wants to see a repeat of the devastating crash of the early 1980s, which drove hundreds of farms and lenders out of business.



Conditions are undeniably frothy. Though down a bit from the highs of 2008, inflation-adjusted farmland values remain well above the last great peak of three decades ago (see chart), buoyed by strong commodity prices, low interest rates and a weak dollar. In parts of the Midwest they rose by more than 20% last year. Feeling flush, farmers have rushed to buy and cultivate more land. Inventories look likely to remain depleted, putting upward pressure on crop and land prices. Investors now account for a quarter of all land purchases in some states.

Is it a bubble? Bulls (of the figurative kind) contend that the economics of farming are enjoying a secular improvement as the climate changes, as people in emerging markets adopt more protein-based diets, and so on. This type of "new paradigm" argument worries some. Robert Shiller of Yale University recently singled out farmland as "my favourite dark-horse bubble candidate for the next decade or so".

Farmers themselves are edgy. Chris Petersen, president of Iowa's farmers' union, says that years of strong earnings have given them reasonably strong balance-sheets, with only half the amount of leverage they carried into the last downturn. But he worries that farming has been turned into "legalised gambling". Plenty of farmers are still splashing out on "pieces of dirt", some with funds borrowed against property they already own. "There's a real risk that a couple of things going wrong could cause a crash overnight," he frets.

The big fear is falling commodity prices coupled with rising interest rates-hardly an unimaginable combination. Rising rates usually go hand in hand with falling farm revenues and higher capitalisation rates (the ratio of income produced by an asset to the asset's value). The higher the rate, the less promising the asset. A rise in capitalisation rates back to their historic average would imply farmland-price falls of up to a third, estimate officials at the Federal Reserve Bank of Kansas City.

Were that to happen, the impact on farmers would be severe. Property accounts for a very high share of farming wealth: about 90% in the United States, compared with 20% for households-though a farm is at least a productive asset. The effect on overall financial stability would be less scary. It would sink some of those 1,500 agriculture-heavy lenders. But the market these days is more skewed towards big, diversified banks and loans for farm property and equipment make up just 2% of overall bank lending.

Still, regulators want to make sure that they cannot be accused of sitting on their hands. The Kansas City Fed has gone out of its way to highlight the dangers, as has the Federal Deposit Insurance Corporation (FDIC), which supervises two-thirds of America's banks and held an event in March titled "Don't Bet the Farm". Its examiners are no longer relying so much on aggregate industry data, says one, but are "asking more questions of individual high-flying lenders about how they plan to mitigate the risks of a bubble bursting." They are urging banks to lend based on cashflow projections, not collateral values.

But supervisors are stopping short of slamming on the brakes. Even the most hawkish participants in the FDIC symposium accepted that it was, even now, impossible to be sure whether the farm boom was justified by shifts in supply and demand or a bubble pumped up by irrational exuberance. In this regard regulators are ploughing the same furrow as before.

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Piracy

Brigands seeking harbours

Why pirates like a little law and order



OFF the coast of Somalia, piracy is flourishing. Brigands took nearly 1,200 people hostage in those waters last year. That Somalia also routinely heads global lists of failed states sounds unsurprising: anarchic conditions on land are surely directly responsible for piracy at sea.

A study presented this week at the annual meeting of Britain's Royal Economic Society by Olaf de Groot and Anja Shortland of the German Institute for Economic Research and Matthew Rablen of Brunel University disputes this claim. Even within Somalia, the economists point out, most pirates originate from relatively stable Puntland rather than the truly anarchic south. They argue that this is no coincidence: a basic level of law and order may be necessary for pirates to ply their dangerous trade.

They reckon that this is because piracy is a "market-dependent" crime. Pirates may benefit from protection from other criminals. Selling the loot requires transport and the ability to store goods. All this requires some rule of law-but not enough to cramp bandits' style.

If this reasoning is true, then piracy ought to increase as a country goes from a state of anarchy to having a semblance of law and order, before eventually declining when the place becomes much better governed. The academics are able to test this hypothesis using a new set of figures on global piracy, put together from reports filed by ships' captains to the International Maritime Bureau.

The new data, which are much more comprehensive than figures put out by governments, confirm their hunch. For countries with very poor levels of governance (as measured by a commonly used World Bank index), small improvements in such things as law enforcement, stability and security lead to more piracy. Piracy can become endemic in weakly

governed states but rarely takes root in ones where the state has completely collapsed. Truly well-governed countries produce few brigands.

There is a "sweet spot" for piracy: countries like Cambodia or Cameroon provide far more conducive environments for it than Haiti, Liberia and Sierra Leone, which are too dysfunctional. Helping such anarchic places to improve their governance a bit has many benefits. Cutting down on pirate attacks may not be among them.

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Indonesian microfinance

Rich pickings

Microlending has helped make BTPN one of Asia's most profitable banks



MENTION microfinance in Asia and thoughts usually turn to India, which is struggling to regulate the industry, and Bangladesh, where Muhammad Yunus, the Nobel prize-winning founder of Grameen Bank, has been turfed out of his job. Indonesia offers a brighter picture. There, a range of lenders is successfully funnelling credit to its entrepreneurial poor.

They include Bank Rakyat Indonesia, a state-owned behemoth that had a whopping $7.4 billion in microloans outstanding in September and operates throughout Indonesia's many islands. Non-profit lenders, pawnshops and co-operatives also swim in the microcredit sea.

So, too, do private-sector banks. Among the keenest of them is Bank Tabungan Pensiunan Nasional (BTPN), which entered the market in 2008 after a buy-out by Texas Pacific Group, a private-equity firm. BTPN's microloan portfolio doubled in 2010, for the second year in a row, to 4.6 trillion rupiah ($500m) or roughly 20% of the bank's total loan book. The bank, which was founded in 1959 to serve retired bureaucrats, boasted a racy 4% return on assets in 2010. Microloans, which command higher yields to reflect greater risk, had a 14% net interest margin.

Most of BTPN's firepower is concentrated on Java, Indonesia's most populous island, and on the family firms that are the lifeblood of the informal economy: market traders, household producers, repair shops and so on. A typical loan is for $3,000, usually for a year or two, with annual interest rates of around 25%. Many opt for daily or weekly loan repayments. With the economy growing rapidly, many small businesses are eager to expand.

Customers are often too busy to drop in to the branch so BTPN equips its staff with portable electronic devices that have been customised to scan fingerprints as well as bank-issued cards. A fingerprint detector is handy for customers who are illiterate or have an inconsistent signature. The device also zaps data back to head office so that management can keep tabs on loans and deposits in real time, instead of waiting for forms to arrive from BTPN's 1,000-plus branches, triple the number in 2008.

The new branches are mainly outside city centres and are decidedly bare-bones. At a poky BTPN branch in Ciracas, on the southern rim of Jakarta, a dog-eared sign hangs on the door and the floor could use a polish. This is deliberate, says Jerry Ng, the bank's chief executive. Low-income customers "don't dare" to walk into a posh banking hall (BTPN's branches in central Jakarta are much plusher). Retired people get a tailored approach, too: BTPN operates branches that open at 5.30am on the first of the month, when state pensions are paid.

For its microborrowers, BTPN offers free training courses on financial skills. On a recent afternoon in Ciracas, 20 or so mostly female customers squatted on straw mats as an instructor handed out envelopes marked with different coloured squares to signify things like household expenses and savings. The courses seem to be popular with entrepreneurs. They also give bankers a way to size up borrowers: those who struggle to separate petty cash from capital might not be ready for the big time.

BTPN's breakneck expansion is bound to slow this year, though Mr Ng predicts the bank's overall loan-growth rates will still be in the high 20s (from 48% in 2010). Mr Ng is working on a strategy for what he calls the "productive poor", who are a rung or two below micro-entrepreneurs, and are mostly served by non-profits.

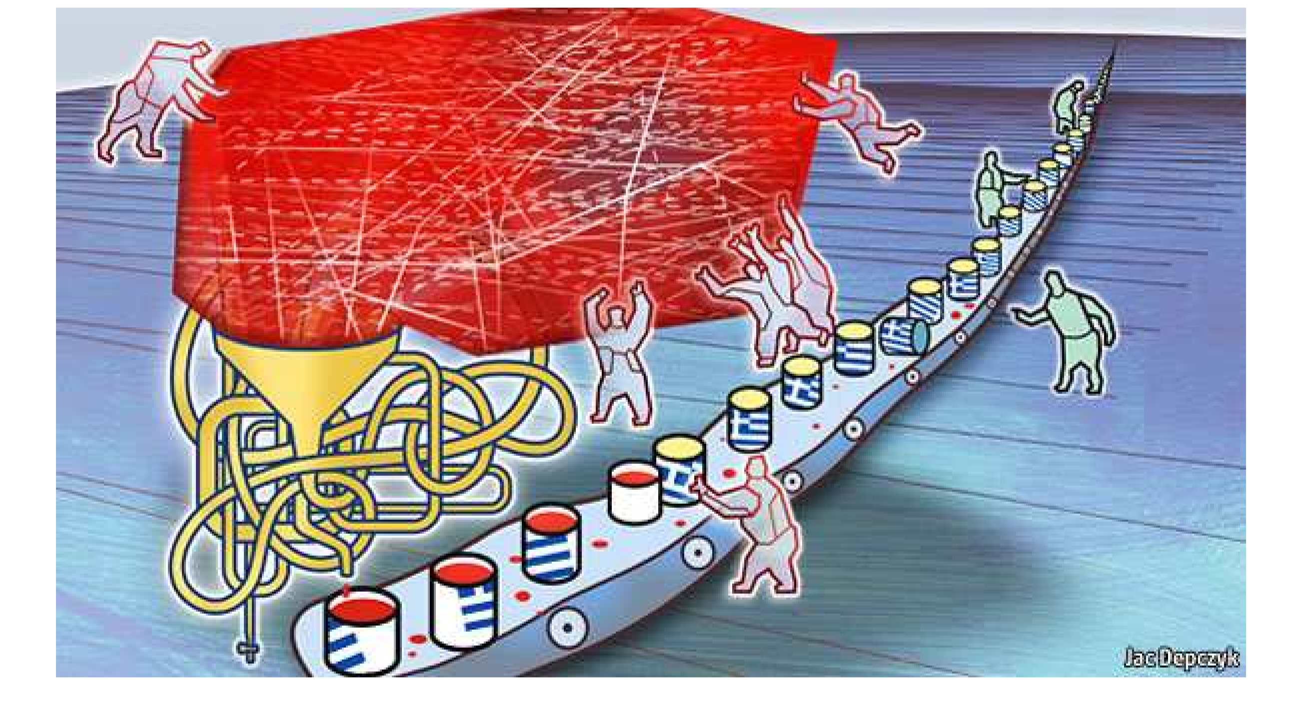
In India some politicians have cast commercial microcredit lenders as villains. So far, there is no whiff of a backlash in Indonesia. Most Indonesians accept the principle that nobody will invest capital unless they expect a return, says Nick Cashmere of CLSA, a brokerage. BTPN's customers seem happy enough, too. Daniel Ginting, a fruit vendor, already has a 100m rupiah loan charging 2.6% a month. Now he plans to open a string of air-conditioned shops to sell his produce. "I'm sure BTPN will give me the loan because it needs customers like me," he says.

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Economics focus

A question of maturity

Talk of restructuring Greece's debt is unlikely to solve the country's economic woes



SOVEREIGN-DEBT restructuring is a familiar story in the developing world but an untold one in advanced economies since the aftermath of the second world war. European leaders have desperately tried to maintain that record by providing bail-out funding to struggling euro-area members. Sheltering these borrowers from the markets gives them space to right their finances, the argument runs. Increasingly, however, the game looks up. A strong showing by the True Finns, a populist party, in Finnish elections on April 17th may derail a Portuguese bail-out. But the real problem lies where the euro-area crisis began, in Greece.

The Greek government still stoutly denies any plan to restructure its debt. The European Central Bank (ECB) is adamantly opposed, fearing havoc among European banks exposed to the countries in question. But the mechanics of a restructuring are now being pored over in Europe and at the IMF. In Germany both Wolfgang SchÃ¤uble, the finance minister, and Werner Hoyer, minister for European affairs, caused consternation earlier this month by openly raising the possibility of a debt restructuring. Markets take it as read: ten-year Greek government-bond yields hit a euro-era record of 14.6% on April 19th. Borrowing costs for other countries rose, too, Spain's among them.

Why the shift in tone? The timetable set out in Greece's rescue plan in May 2010, which provided euro110 billion ($155 billion) in support from other euro-area countries and the IMF, expects it to raise about half its financing requirement in 2012 and to return fully to the markets in mid-2013. With yields where they are, and Greece's debt burden approaching 150% of GDP, this looks ever more improbable. The upshot is that countries like Germany face the prospect of a further call on funds to keep Greece afloat. That looks politically unthinkable. Never mind that German banks benefit from Greece's ability to keep paying its dues: German taxpayers hate the idea of again bailing out "feckless" Greeks. A new approach is therefore needed.

In theory, there is a wide array of options, from extending maturities to imposing steep write-downs on the value of the debt. It helps that Greece has lots of legal wiggle-room. In many emerging-market crises, bonds had strict safeguards to protect international creditors, who could fight their case in Anglo-Saxon jurisdictions. That is one reason why Argentina's restructuring in 2001 turned out to be so messy. In the case of Greece, between 80% and 90% of the bonds have been written under local law. The documents are short, typically around two pages, and impose no real restrictions on restructuring. At a seminar this month in Florence, Mitu Gulati, a law professor at Duke University, and Lee Buchheit, a sovereign-debt specialist at a New York law firm, argued that a steep haircut, say of 50%, was legally feasible.

In practice, the options are more constrained. Greece is still running a primary deficit (ie, excluding interest payments) and will need to borrow money come what may. So the solution will be one that suits European policymakers. Many worry about the effect of a haircut on banks' balance-sheets: Lorenzo Bini Smaghi, a member of the ECB's executive board, recently gave warning that such a move could bring down a large part of the Greek banking system, which is heavily exposed to its own government's debt. EU leaders have also previously pledged that private creditors will not suffer an involuntary debt restructuring until mid-2013, when the European Stability Mechanism, a permanent bail-out fund, comes into existence. The German ministers made it clear that what they had in mind was a voluntary deal.

Veterans scoff at the idea of any restructuring being truly "voluntary". The more creditors can determine terms, the less likely it is that Greece's debt burden will be materially diminished. That is one reason why the idea of retiring Greek debt

through bond buy-backs at current, depressed prices seemed likely to fail: it would simply tend to drive prices back up again, defeating its purpose. That option is no longer on the table. But another, the "reprofiling" of bonds, is being actively considered.

Under reprofiling, the Greek government would continue to pay coupons on bonds and to redeem them when they come due, but the maturity of each bond would be extended. That would postpone the need for more taxpayers' money to refinance Greek debts. As both the interest payments and the principal of loans would still be honoured, it would probably be acceptable to creditors, especially banks whose main concern is to avoid write-downs on bonds they are currently holding in their banking books at par. Reprofiling is thought unlikely to trigger payments on credit-default swaps. And it has worked before. In 2003 Uruguay won consent from its bondholders to extend its debt maturities by five years, reducing the net present value of its debt by 13%. Uruguay tapped international markets soon after settling with its creditors.

The Montevideo precedent

Comparisons can be misleading, however. Uruguay's problem was more to do with liquidity: what it needed was a breathing-space. Greece's problem is one of solvency. When the bail-out plan was conceived last May, Greek debt was thought to have been 115% of GDP at the end of 2009. That figure was subsequently revised up to 127%. The ratio has since risen to 145% at the end of last year. Despite a stringent fiscal retrenchment in 2010, the deficit is thought to have been a still-huge 10.6% of GDP last year.

After 12 months of official denials, restructuring is no longer taboo. The politicians may prefer the soft option of reprofiling but the economics point to a harsher solution: a steep write-down as part of a broader package of reforms. The predicament of local banks could be addressed through recapitalisation via international funds, the exposures of European banks by private equity-raising. A proper restructuring is legally feasible and economically necessary. What prevents it is political cowardice.

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Religious studies

The good god guide

Tentatively, scientists are asking: exactly what is religion, and what is it for?



RELIGION is ubiquitous but it is not universal. That is a conundrum for people trying to explain it. Religious types, noting the ubiquity (though not everyone is religious, all human societies have religions), argue that this proves religion is a real reflection of the underlying nature of things. Sceptics wonder why, if that is the case, it comes in such a variety of flavours, from the Holy Catholic and Apostolic Church to the cargo cults of Papua New Guinea-each of which seems to find the explanations offered by the others anathema.

To bring a little scientific order to the matter, researchers taking part in a multinational project called Explaining Religion have spent three years gathering data on various aspects of religious practice and on the sorts of moral behaviour that religions often claim to govern. The data-collection phase was wrapped up at the end of 2010, and the results are starting to be published.

At the moment, most students of the field would agree that they are still in the "stamp collecting" phase that begins many a new science-in which facts are accumulated without it being clear where any of them fit in. But some intriguing patterns are already beginning to emerge. In particular, the project's researchers have studied the ideas of just deserts, of divine disapproval and of the nature of religious ritual.

One theory of the origin of religion is that it underpins the extraordinary capacity for collaboration that led to the rise of *Homo sapiens*. A feature of many religions is the idea that evil is divinely punished and virtue is rewarded. Cheats or the greedy, in other words, get their just deserts. The selflessness which that belief encourages might help explain religion's evolution. But is the idea of universal just deserts truly instinctive, as this interpretation suggests it should be?

Mysterious ways

To test that Nicolas Baumard (then at Oxford, now at the University of Pennsylvania) used a computer to check people's reactions to a modern morality tale. Dr Baumard's volunteers read about a beggar asking for alms, and a passer-by who did not give them. In some cases the pedestrian was not only stingy, but hurled abuse at the poor man. In others, he was skint and apologetic. Either way, he went on to experience some nasty event (anything from tripping over a shoelace, via being tripped up deliberately by the beggar, to being run over by a car).

The question asked of each volunteer was whether the second event was caused by the passer-by's behaviour towards the beggar. Most answered "no", the assumption being it was the shoelace, or the beggar's foot, or the car. But Dr Baumard also measured how long each volunteer thought about the answer-and he found that when the passer-by had behaved badly to the beggar and then suffered an unrelated bad incident, volunteers spent significantly longer thinking about their answers than when the passer-by had behaved well, or the beggar had tripped him up deliberately.

Dr Baumard's interpretation, though he cannot prove it, is that the volunteers were indeed making a mental connection, during this extra thinking time, between the passer-by's actions and his subsequent fate. In other words, they were considering the idea that he was getting his just deserts, dished out by some sort of universal fate.

That interpretation will require a lot of further testing. But it tallies with a second result from the project, which looked at the idea that God is always watching you.

To investigate this, Dr Baumard teamed up with Ryan McKay of the University of London and Pierrick Bourrat of the University of Sydney. Together, they checked whether subtle cues about being observed had an effect on people's behaviour.

The eyes have it

In this case they invited their volunteers to rate the acceptability of two acts-keeping the money from a lost wallet and faking a resume. Half the volunteers were given the task written on a piece of paper which also included a picture of a pair of eyes. The other half saw an image of flowers with their instructions. The upshot was that those who saw the eyes rated both misdemeanours as more serious than those who saw the flowers.

Again, that proves nothing. Prying eyes need not indicate a supernatural watcher, and people are well-known to have their consciences pricked when they are under non-divine scrutiny as well. But it does indicate a mental process that religious ideas of a judgmental, omniscient god would be able to tap into.

To explore that idea further, Dr Bourrat joined forces with Quentin Atkinson of the University of Auckland. Together, they pored over the World Values Survey, a poll of 87 countries that asks respondents, among other things, about their

religious beliefs and the acceptability of a range of infractions, from littering to adultery. The upshot of Dr Bourrat's and Dr Atkinson's analysis was that people whose religion includes an omniscient, judgmental god (Christians, Muslims and so on) regard the whole range of such transgressions more harshly than those, such as Buddhists, whose religion does not. (Agnostics and atheists think like Buddhists.)

Ritual questions

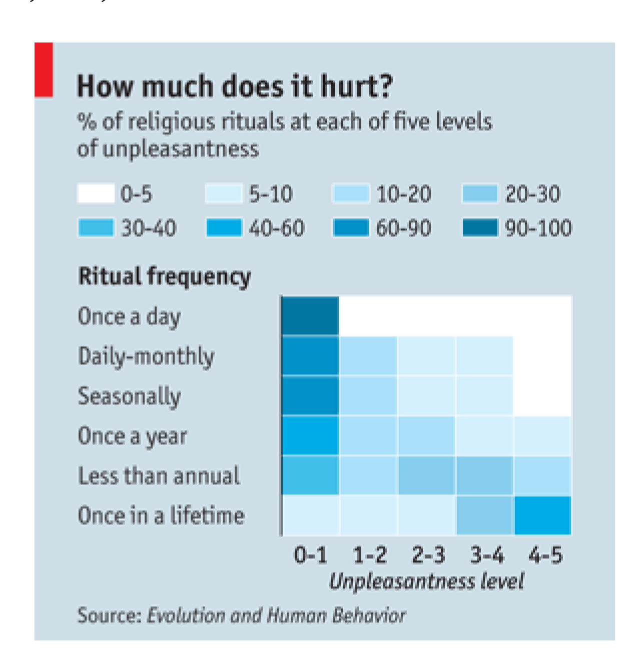
The ideas of just deserts and of the nagging of conscience are both, in essence, private to each brain. But a third religious idea that might foster co-operation is very public indeed. That is the idea of shared rituals.

Psychologists distinguish two types of long-term memory. One, semantic memory, records things consciously learned without first-hand experience-history lessons at school, for example. The other, episodic memory, records memorable events from a person's own life.

Harvey Whitehouse, also of Oxford, thinks these different ways of remembering are harnessed by what he sees as two distinct aspects of religiosity. The doctrinal religious mode, as he dubs the first of these aspects, favours frequent but not particularly exciting rites that allow large bodies of teaching to be stored in a person's semantic memory. That explains Friday prayers in Islam, or daily mass for the more enthusiastic sort of Catholic.

The second aspect-the imagistic mode, in Dr Whitehouse's terminology-relies on rare but highly arousing events that are etched into the episodic memory by dint of their emotional salience. In principle, these could be either cheerful or unpleasant. However, since depths of trauma are recalled more vividly than heights of euphoria, religions should, in his view, prefer the former. Which, indeed, they do.

In one particularly grisly rite of passage, for example, young men belonging to Australia's Aranda tribe are first circumcised and then pinned face down as several of their elders bite the initiate's scalp and chin as hard as they can, before slitting his urethra with a stone blade. That is the sort of thing you are not going to forget in a hurry. You are also going to feel a strong affinity with those others who have gone through it, and perhaps a certain disdain for those who have not-a solidarity-building exercise, then, if ever there was one.



To test his prediction about there being two basic types of ritual, Dr Whitehouse recruited the assistance of Dr Atkinson. Together, they compiled a database of 645 rituals from 74 cultures, drawing on the Human Relations Area Files, a large collection of ethnographic material. They rated each ritual's frequency and the level of arousal involved. As predicted, though low-arousal rituals are more common than high-arousal ones, there is a tendency (see chart) for ritual behaviours to cluster at either end of the arousal spectrum.

The next step is to enlarge the trove of data further-in particular by adding historical information to the contemporary sort already in it. The researchers may also extend their net to non-religious rituals, from hazing by army special-forces groups, to the intoning of corporate hymns. This is the aim of a follow-up to Explaining Religion, which is due to begin in earnest later this year. It will bring together anthropologists, archaeologists, evolutionary psychologists and historians, and will trawl though 5,000 years of history, recording rituals as it goes.

So, even though Explaining Religion did not actually achieve its rather ambitious eponymous goal, it has found some promising avenues of investigation, and led to that great desideratum of science, more research. Most importantly, though, it has opened to disinterested investigation an area of human behaviour that all too rarely sees it. That alone is worth celebrating. Happy Easter (or other Spring fertility festival of your choice).

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Social science

Wisdom about crowds

To model the behaviour of humans en masse, treat them as people, not molecules

THE behaviour of crowds is sometimes unpredictable and occasionally deadly, but there is good reason to believe it is governed by simple rules. Presumably, like molecules in a liquid, people in a crowd all behave in more or less the same way. Capture those similarities in a model and it should be possible to predict how a crowd will behave.

Existing models of crowd behaviour do just that. They treat moving masses of humanity as though they were fluids. This works, up to a point. But it often fails to predict the changes that happen as a crowd's density increases and its movement becomes chaotic. That is why Mehdi Moussaid of Paul Sabatier University, in Toulouse, and his colleagues have made a radical innovation. Instead of treating the individual human beings in a crowd as if they were molecules, they have treated them as if they were human beings. They have, in other words, given them volition. Of course, the objective of someone in a moving crowd is usually fairly simple-to get somewhere and then stay there. But it is an objective, nevertheless.

As they describe in the *Proceedings of the National Academy of Sciences*, Dr Moussaid and his team built a computer model in which, initially, every virtual person in the crowd followed two rules. The first was that each attempted to chart as straight as possible a path to his destination, such as an exit or the end of a corridor, while avoiding obstacles, including other pedestrians. Second, each adjusted his speed, depending on his distance from such obstacles.

These two rules were enough to reproduce in the model the sorts of behaviour seen in real crowds, such as the tendency people have to sort themselves spontaneously into separate lanes of traffic moving in opposite directions and the stop-and-go motion that occurs as crowds become more dense. When Dr Moussaid really put the pressure on, however, by increasing the density of the virtual crowd, the model did not show the extreme turbulence seen in real crowds-the sudden crushes and chaotic changes in direction.

These happen because in extremely dense crowds there is so much shoving and jostling that people's movements are no longer entirely under their own control. In other words, they actually do start behaving like molecules in a fluid, bouncing off one another at random. To mimic that behaviour, Dr Moussaid added a third rule, which made members of his crowd more molecule-like when they were at very close quarters-a lack of volition that will be familiar to anyone who has been in a tight jam of humanity.

With this third rule added, the model accurately reproduced the dynamics of dense crowds as well as those of sparser ones. At first, a crowd flows smoothly. Then, as more people are added, it begins to show stop-and-go patterns and sometimes extreme crushing. Finally, it displays the sort of turbulence that can lead to disaster. On one run, for example, the model showed precisely the pattern seen in a video of a catastrophe in Mecca in 2006, when 346 pilgrims there on the *haj* were crushed to death.

The practical upshot of all this, Dr Moussaid hopes, will be improvements in the design of public spaces where crowds are likely to gather, especially in the location of evacuation routes. That is an outcome greatly to be desired. And it was made possible by remembering that people are not molecules.

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Bottom feeders

A novel way of dealing with an unpleasant problem



For your delight and delectation

DESPITE their name, disposable nappies are notoriously difficult to dispose of. Studies of landfills suggest they may take centuries to rot away. But Alethia Vazquez-Morillas of the Autonomous Metropolitan University in Mexico City thinks she has found a method of speeding the process up.

As she and her colleagues describe in *Waste Management*, cultivating the right type of mushroom on soiled nappies can break down 90% of the material they are made of within two months. Within four, they are degraded completely. What is more, she says, despite their unsavoury diet the fungi in question, *Pleurotus ostreatus* (better known as oyster mushrooms), are safe to eat. To prove the point she has, indeed, eaten them.

The culinary use of oyster mushrooms was one reason why she picked them for the experiment. The species is frequently used in stir-fries and is often added to soups. The other reason was that *Pleurotus ostreatus* is widely used in what is known as mycoremediation-the deployment of fungi to clean up waste. It is, for example, already grown on agricultural materials such as wheat and barley straw, and industrial waste like coffee grounds and the leftovers from making tequila. Dr Vazquez-Morillas and her colleagues were trying to extend the oyster mushroom's own culinary range.

The reason nappies are difficult to break down has nothing to do with their use. Even a clean nappy would hang around for a long time in a dump. The main ingredient of a nappy is cellulose, an annoyingly persistent material. *Pleurotus*, however, grows on dead or dying trees in the wild and is thus well provided with enzymes that break cellulose down. And, since Mexicans alone throw away 5 billion nappies every year, there is plenty of material from this source for them to get their mycelia into.

The idea that the result might be sold and eaten may be controversial but it is not absurd. The nappies the researchers used were contaminated only with urine, not faeces. A healthy person's urine is sterile and Dr Vazquez-Morillas also treated the nappies with steam, to make sure. Such treatment would kill the nasty bugs in faeces, too, though, so mushrooms grown on treated nappies should, in theory, be safe to eat.

In practice, overcoming the yuck factor might be an insuperable barrier to marketing nappy-grown fungi, and the cost of the steam treatment could make the exercise futile. Mycoremediation of this sort does not, however, depend for its success on selling the results. Merely getting rid of what would otherwise hang around indefinitely is worthwhile. And of the fungi

themselves, Dr Vazquez-Morillas observes, "they are cleaner than most of the vegetables you can find in the market, at least in Mexico."

Materials science

Cracking a problem

Another use for a fashionable, new material

LIKE all other human activities, science is subject to fads. One of the latest is for graphene. This wonder material-a form of carbon that comes in films a single atomic layer thick-won Andre Geim and Konstantin Novoselov the Nobel prize for physics last year. Because of its unusual electrical properties it has been touted as a way of making everything from touch screens to solar cells. Now a humbler use is being proposed. Another of graphene's qualities is that it is strong. That, suggests Erica Corral of the University of Arizona, makes it ideal for reinforcing ceramics.

Engineers like ceramics because they can be heated without melting. Unlike metals and plastics, though, they are brittle. Because they crack easily, using them in places that are exposed to a lot of physical punishment is difficult. But a paper just published in the American Chemical Society's journal, *Nano*, by Dr Corral and her colleagues, suggests a sprinkling of graphene may deal with that.

The ceramic they experimented with was silicon nitride, a material much admired in the aerospace industry. Components are made by sintering it in powder form in a mould, at 1,000Âº C, for several hours. Unfortunately, graphene disintegrates above 600ÂºC, so the team had to think of a clever way of mixing the two materials. Their solution was to take advantage of graphene's electrical conductivity, by running a current through the mixture. This generated a temperature of 1,650ÂºC-more than enough to sinter the silicon nitride. The graphene, however, did not break down. Why, is not entirely clear. But rapid electrical heating did not seem to affect it in the way that slower oven heating would. The result was a composite that was able to withstand twice as much pressure as unalloyed silicon nitride.

When the team examined what they had done under a microscope, they found that the graphene had wrapped itself around the silicon-nitride grains, forming continuous walls. When they looked at samples that they had whacked hard enough to come close to cracking, they found that these walls were encouraging the cracks to spread in three dimensions-in contrast with the two-dimensional pattern usually seen in silicon nitride. Dr Corral suspects that extending cracking into the third dimension dissipates the energy faster and stops the fault spreading. A cracking idea, as it were.

Deepwater Horizon

Writings from the black hole

What to read at the first anniversary of the blowout

Deep Water: The Gulf Oil Disaster and the Future of Offshore Drilling. By the National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling. 381 pages; available free

Blowout in the Gulf: The BP Oil Spill Disaster and the Future of Energy in America. By William Freudenburg and Robert Gramling. MIT Press; 240 pages; $18.95 and pound14.95. Buy from Amazon.com, Amazon.co.uk

Black Tide: The Devastating Impact of the Gulf Oil Spill. By Antonia Juhasz. Wiley; 374 pages; $25.95 and pound17.99. Buy from Amazon.com, Amazon.co.uk

In Too Deep: BP and the Drilling Race That Took it Down. By Stanley Reed and Alison Fitzgerald. Bloomberg; 248 pages; $24.95. Wiley; pound16.99. Buy from Amazon.com, Amazon.co.uk

A Sea in Flames: The Deepwater Horizon Oil Blowout. By Carl Safina. Crown; 368 pages; $25. Buy from Amazon.com

A Hole at the Bottom of the Sea: The Race to Kill the BP Oil Gusher. By Joel Achenbach. Simon & Schuster; 288 pages; $25.99. Buy from Amazon.com



THE oil prospect from which the Deepwater Horizon rig was disengaging itself when disaster struck on April 20th 2010 was named Macondo after the setting of Gabriel Garcia Marquez's "One Hundred Years of Solitude". Some of the spreading slick of books on the Deepwater blowout and its subsequent oil spill dutifully attempt to cash in on this literary reference-invoking Macondo's ageless origins, its propensity for the innominate and the extremes of irreality and, more than once, its hurricane-mediated erasure from all subsequent memory. The ploy never quite seems to fit, though. How much easier it would have been for the authors if the Marquez reference that had come to the mind of the well's nameless name-giver had been from "Chronicle of a Death Foretold"; its spirit of the botched and the inevitable would underpin the narrative like a pile driven into ocean sediments.

The sense of the pressure of events as of the overburden of a mile of rock, of the tragic irony of life as usual on the rig even in the minutes that its oily nemesis was roaring up from the well below, is well caught in the best and cheapest of the available accounts, that of the presidential commission on the spill, available free on the internet. Anyone wanting a book-length account of the disaster which goes into satisfying detail about its causes, its context, its impact and what should be done next should start there. It is gripping in those places where that is appropriate: well judged, nicely written-by the standards of books you might otherwise pay for, not just by the standards of committee reports-and well illustrated with both photographs and diagrams. The last matters quite a lot. To come close to understanding the intricacies of the disaster without diagrams is next to impossible. Why the commercial offerings do without diagrams showing the structure of the well and its components is a mystery. If they think they'll put readers off they should have more faith (and draw them nicely).

If you still want to spend some money, your choice of book is likely to be based on which of the various contexts you either think most critical or find most congenial. To look at the disaster as an outcome of America's historic enthusiasm for oil production-in the 19th century the distinction between petroleum oil and whale oil in some markets was simply the adjective "American"-turn to "Blowout in the Gulf", though the book's claim that Deepwater Horizon says a great deal about the future of energy in America is something of a stretch. Antonia Juhasz's "Black Tide" seems to get closer to the truth when she bemoans the fact that, as yet, Deepwater Horizon does not look like changing all that much in Washington, DC.

The recent history and corporate culture of BP-in particular the difficulties it faced in absorbing two large American acquisitions and the disastrous fire at its Texas City refinery, which killed more people than the loss of the Deepwater Horizon-provide the setting for "In Too Deep", written by two Bloomberg journalists, Stanley Reed and Alison Fitzgerald. The book points out some interesting things that other accounts miss, such as the criticism faced by Exxon a few years earlier when it abandoned a troublesome deepwater well in the Gulf, called "Blackbeard", rather than risk continuing it. But it doesn't have the insider-ish corporate feel that would lift it above the others, and by rushing to press in January it has missed the salient fact that BP now faces another seemingly irresolvable mess, this time in Russia.

This is an extreme version of the problem many of the books have in dealing with the disaster as an end product, a symbol of something greater, a nemesis to some hubris. The world has already moved on. In years to come it will be possible to place Deepwater Horizon in various narratives, perhaps as a turning point. But it is not the end of some prior story. It is a story in itself, something which two other writers, Carl Safina and Joel Achenbach seem to appreciate best. Mr Safina, a noted conservationist, provides a set of impressions and reflections as they struck him over the summer. He can be entertaining and insightful, but the book's charms are undercut by a striving for effect that turns out to be both grandiloquent and sloppy.

This is undoubtedly a result of being rushed-a problem which also mars "Blowout in the Gulf" and "In Too Deep". Mr Achenbach, by contrast, manages to turn the chaotic speed of events into something of a bonus. Having covered the disaster as part of an impressive team at the *Washington Post*, where he reports and blogs, he tells its story in part by telling the story of telling the story-of missteps in reporting, of uncovering the causes of the disaster at the same time as discovering its effects on beaches. He opines and makes jokes as he charges on, and the book is on the whole the better for it.

Mr Achenbach can also draw back quite dispassionately, though a lack of engagement with victims will mar the book in some eyes. His closing chapter, "The Banality of Catastrophe", lays out better than anything how everyday and ordinary engineering and business practices can be even when on the cusp of becoming unhappily extraordinary. He addresses the central tension in the response to the spill with a frankness that the commission report cannot; that the government and BP had to work together while at the same time the administration had little option but to frame the disaster as a rerun of Hurricane Katrina, but this time with a government that cared and a foreign perpetrator to take the blame.

Both Mr Safina and Mr Achenbach give significant roles in their stories to Admiral Thad Allen, the thoughtful and decisive now-retired commandant of the Coast Guard who led the government response. Mr Safina starts off disliking Mr Allen and comes somewhat to admire him; Mr Achenbach likes him from the start, in part, perhaps, because he likes the way he speaks; a public servant happy to characterise a crisis as "indeterminate, asymmetrical and anomalous" is Mr Achenbach's kind of guy. Any reader who, after all this, still wants to read more about Deepwater Horizon should hope that Mr Allen has ambitions as a memoirist. On the evidence to date he will think, he will take his time and he will put his chronicling of the death of a rig into the story of a life richly, interestingly lived. Someone sign him up.

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Poverty

Untying the knot

New ideas about an old problem

Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty. By Abhijit Banerjee and Esther Duflo. *PublicAffairs; 336 pages; $26.99. To be published in Britain in June by PublicAffairs; pound15.99.* Buy from Amazon.com, Amazon.co.uk



A stitch in time

ESTHER DUFLO grew up in France pitying Kolkata's poor, based on what she had read in a comic book about Mother Teresa. Abhijit Banerjee grew up in Kolkata envying them: poor kids always had time to play and they routinely beat him at marbles. As economists at the Massachusetts Institute of Technology, both remain fascinated by poverty. In an engrossing new book they draw on some intrepid research and a store of personal anecdotes to illuminate the lives of the 865m people who, at the last count, live on less than $0.99 a day.

The two economists made their names (and remade their discipline) by championing randomised trials. These trials test anti-poverty remedies much as pharmaceutical firms test drugs. One group gets the remedy, another does not. The two groups are chosen at random, so the remedy should be the only systematic difference between them. If the first group does better, the benefit can be attributed to the project and not the many other factors that might otherwise obscure the result.

These trials proved immensely appealing. They promised to sift nuggets of truth from the slurry of received wisdom and wishful thinking that characterises much aid-talk. The hope was that once a trial proved the worth of a project or programme, governments and donors would back it and prescribe it more widely.

The approach has caught on. Another book, "More Than Good Intentions" by Dean Karlan and Jacob Appel of Innovations for Poverty Action is also out this month. But the approach has also attracted criticism. These trials, the critics point out, show whether a drug or remedy works, but not how it works. Even in medicine, a randomised trial can only show whether the average patient benefits; not whether any individual patient will benefit. Human physiology differs from patient to patient, so does the physiology of poverty.

"Poor Economics" should appease some of their critics. It draws on a variety of evidence, not limiting itself to the results of randomised trials, as if they are the only route to truth. And the authors' interest is not confined to "what works", but also to how and why it works. Indeed, Ms Duflo and Mr Banerjee, perhaps more than some of their disciples, are able theorists as well as thoroughgoing empiricists.

They are fascinated by the way the poor think and make decisions. Poor people are not stupid, but they can be misinformed or overwhelmed by circumstance, struggling to do what even they recognise is in their best interests. The authors recount (with grudging admiration) how nurses in rural Rajasthan outwitted the two professors' efforts to stop them skiving off work. They also describe how borrowers in south India exploited a contractual loophole to avoid taking out health insurance, which their microlender insisted they buy for their own good.

The poor, like anyone else, can also succumb to inertia, procrastination and self-sabotage. The authors discovered it was quite normal for poor women in the Indian city of Hyderabad to take out a microloan charging 24% interest only to deposit it in a savings account that paid 4%. This seems mad, except that the obligation to repay the loan ensured the women did not squander the money. Farmers in western Kenya miss out on the benefits of fertiliser because, by the time the planting season arrives they have often spent their earnings from the previous harvest. But farmers far-sighted enough to buy the fertiliser straight after the harvest, when they do have money, do not sell it, despite facing all the same demands on their resources. In other words, farmers cannot save the money to buy fertiliser, but they can save the physical fertiliser itself.

Poverty is often linked in the public mind with dependency. But, as the authors point out, the poor bear more responsibility for their lives than the rich, who coast along, enjoying chlorinated water, drawing a regular salary, paid directly into a bank account, perhaps with contributions to their pension and health care automatically deducted. The rich can indulge their weakness for cigarettes and alcohol without fear of financial ruin. The poor, in contrast, have to watch every cup of sugary tea. Mr Banerjee and Ms Duflo recommend a variety of nudges, props and subsidies that will make it as easy for poor people to make the right decisions as it is already for the rich.

If it is a mistake to equate poverty and dependency, it is equally mistaken to believe the poor will lift themselves up by their bootstraps. The book crosses swords with the business gurus and philanthropists who project their own enthusiasm for Promethean entrepreneurship onto the poor. Yes, the poor are more likely to run their own business than the rest of us. But that is because they have no other choice. When asked, most of them aspire to a government post or a factory job. Developing countries are not full of billions of budding entrepreneurs; they are full of billions of budding salarymen.

The authors also dissent from the "melancholy view" held by some economists, who argue that bad politics will always trump good policy. Why bother figuring out the best way to spend a dollar on education, when $0.87 will be diverted into the pockets of officials? These economists argue that you can't do anything in a country with bad institutions-and you can't do much about these bad institutions either. You just have to wait for a revolution.

But Mr Banerjee and Ms Duflo advocate what they call a "quiet revolution". They insist that things can be improved "at the margin", which is an economist's way of saying that things can get better, even if they are very bad. They also make the case that improved policies can contribute to better politics. Once constituents see that good policymaking can make a difference to their lives, they raise their expectations, and demand more.

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Bicycling

A way of life

Faster in town than going by car, bus, tube or on foot

The Bicycle Book. By Bella Bathurst. *Harper Press; 306 pages; pound16.99.* Buy from Amazon.co.uk



Will of the wheelwright

FROM mountain bikers to BMXers to racers, couriers to commuters, the bike epitomises a way of life for millions of people. There are more than a billion bicycles in the world - more than twice the number of cars - and the bike has regularly proven to be the fastest form of urban transport, reaching its destination more quickly than cars, buses, tubes or pedestrians.

Bella Bathurst made her name writing about the lighthouses built by the ancestors of Robert Louis Stevenson. Her joyful freewheel through the world of bicycles and the people who ride them not only affirms her as an elegant chronicler of quirky subjects, but fills a gap in a pantheon of cycling literature that brims with route guides, sports science manuals, biographies and instruction books.

While Rob Penn's glorious "It's All About the Bike" went some way to redressing the balance last summer, "The Bicycle Book" is unique in appealing to both cycling nuts and those of us who mean to dust off the flat-tyred two-wheeler propped against a wall in the hall, spare room or garage, but never quite get round to it.

Ms Bathurst admits to picking and choosing "quite shamelessly" from all the information available to her about cycling and leaving out quite a lot. The political and environmental debate, or how to stop your bike being nicked, are blogging favourites, but how many people know that the Evans Cycle franchise sold four times as many bikes as usual on the day of the London tube bombings in 2005; that bicycle couriers first came into being in Paris in 1874 taking messages from banks to telegraph offices; or that, until 2004, the Swiss army had three infantry regiments of cyclists working in security, border control and dispatch?

Ms Bathurst also introduces the reader to some remarkable characters. In the early 1920s Zetta Hills, a determined young woman with a taste for showmanship, cycled across the English Channel on a bicycle mounted on two buoyant planks. In 2007 Vinod Punmiya, an Indian businessman, made his name by racing against a train known as the "Deccan Queen" over the 140km between Pune and Mumbai. Then there is Graeme Obree, a former cycling legend known as the Flying Scotsman who fought his depressive demons by breaking the hour record - the ultimate time trial - twice, once making two attempts within 24 hours. For him the pursuit, when boiled down to its fundamentals, is about "you and a bike", a philosophy that will resonate with anyone who loves the sunny simplicity of cycling.

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Russian literature

Patron saints of literary gloom

Books, from Russia with love

Possessed: Adventures with Russian Books and the People Who Read Them. *By Elif Batuman. Farrar, Straus and Giroux; 298 pages; $15. Granta; pound16.99.* Buy from Amazon.com, Amazon.co.uk

ACADEMICS are rarely reliable guides to literature. The magic that draws eggheads to certain books tends to get bludgeoned by theory, jargon and the need to be obscure. This is what makes "The Possessed" such a joy to read. In a handful of essays about Russian books and the people who read them (published in America last year), Elif Batuman, a Turkish-American professor with a doctorate from Stanford University, infectiously conveys the dreamlike inscrutability of Russian literature. With personal anecdotes about Tolstoy conferences, ice-castles in St Petersburg and a summer spent in Samarkand, she also captures the way life can be as mystifying and profound as these books.

Ms Batuman describes her route to a PhD in comparative literature with unusual verve. Perhaps this is because her explanation feels slightly defensive. An aspiring novelist, she had long assumed that fiction must come from experience, not from the study of other books. But there was something about Russian literature, indeed about "Russianness", that tugged at her ever since her first violin lessons with a fascinatingly odd Russian man named Maxim. Something of a contemporary Eugene Onegin, Maxim wore black turtlenecks and appeared "deeply absorbed by considerations and calculations beyond the normal range of human cognition". Mercurial and unpredictable, he was the kind of man who could only be explained by Pushkin or Tolstoy, if by anyone at all.

But it was at university that Ms Batuman came around to the idea that Russian - the language and the literature - was the best way to comprehend "the riddle of human behaviour and the nature of love". When she describes the "otherworldly perfection" of "Anna Karenina", her pulse quickens: "How had any human being ever managed to write something simultaneously so big and so small...so strange and so natural?" She marvels that the heroine doesn't turn up until chapter 18, and the book goes on for 19 more chapters after her death. She recalls her first Russian- language textbook, which featured a story about a woman who goes to visit her boyfriend only to discover a note saying, "Forget me." Intent on exploring how literature echoes and influences experience, is it any wonder that Ms Batuman chose to "immerse" herself in this world of compelling ambiguity?

With a keen ear for the absurd, Ms Batuman is at her liveliest when recounting the quirky pageantry of academia. In one of the finest essays, "Babel in California", she not only gives shape to the literary legacy of Isaac Babel, a lesser-known 20th-century Russian author, but also sends up the giddy "Alice in Wonderland" weirdness of an academic conference. At one particularly strained meal, Babel's elderly daughter asks a Babel specialist in her "fathomless, sepulchral" voice, "Is it true that you despise me?" In another fine essay, "Who Killed Tolstoy?", Ms Batuman describes how Aeroflot lost her luggage, forcing her to deliver her paper at a conference on Tolstoy's estate wearing sweatpants and flip-flops. Days later, still wearing the same "Tolstoyan" costume, Ms Batuman calls the airline again, only to hear from a clerk: "Are you familiar with our Russian phrase, 'resignation of the soul'?"

The motor of this book is in Ms Batuman's erudite enthusiasm for big, chunky, gloomy and occasionally illogical fiction. With humour and a sense of romance, she has written an intellectually bracing travelogue of literary adventures. Whether or not Ms Batuman ends up spinning out a novel, with "The Possessed" she has revealed her powers as a storyteller.

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Early religious archaeology

An Easter enigma

Whatever happened to the Hebrew Christians?



THE fate of the Jews who followed Jesus is one of the puzzles of the history of monotheism. The New Testament has much to say about a related issue: the dilemmas faced by Jesus's non-Jewish adherents. There was a hard argument about how much, if any, of the Jewish law and custom such converts should keep. But when it comes to followers of Christ who were Jewish by culture and religious practice, the evidence is hazier. Such people clearly existed: the Epistle to the Hebrews, a deeply enigmatic section of the New Testament, is addressed to those who were steeped in the lore of the Jewish Temple, and wondered how the self-sacrifice of their crucified Master related to the animal sacrifices of their ancestral faith. Then there is a handful of references in other texts to Christians who fled eastward from Jerusalem before the Roman-Jewish war of 66AD. One account speaks of an exodus towards Jordan, after the Christian bishop, James, was attacked in the Temple courtyard.

The subsequent history of the Hebrew Christians has been obscured by centuries of Christian anti-Semitism, and by Jewish resentment of Christianity. By the fourth century, a ferocious Cypriot bishop was describing a group of people whom he deemed heretics because they kept the Mosaic law-but who were also loathed by fellow Jews because of their belief in Christ. As in so many conflicts, people who straddled the divide upset both sides.

All that helps explain the excitement generated in recent weeks by the emergence of a collection of lead codices, which might, if they are genuine, throw light on the missing links in Christian and Jewish history. Some 70 or so ring-bound "books", with up to 15 leaves each, are said to have been found, along with other artefacts, in a cave in Jordan, near the place where the Hebrew Christians seemingly took refuge.

They are now in the possession of an Israeli Bedouin, but the government of Jordan has claimed ownership, saying they came to light on Jordanian soil a few years ago. Amid much confusion, the objects' keeper asserts that they have been in his family for a century. Ziad al-Saad, head of Jordan's antiquities department, has said this could be the biggest find since the Dead Sea Scrolls in 1947. David Elkington, who is writing a book about the lead "books", backs Jordan's claim, saying it offers the best chance of ensuring the artefacts are open to scholars. An Oxford laboratory, after testing one of the codices, believes the lead might be 2,000 years old.

Two British authorities on the Dead Sea Scrolls, Philip Davies and Margaret Barker, have argued, after seeing images, that the codices-and their possible Christian link-should be taken seriously. But a dissonant voice has come from Peter Thonemann, an Oxford University historian who was shown a photograph of a copper engraving, apparently found along with the lead codices; what he saw, at least, was a crude forgery, he insists. But so far, no scientific authority in a position to judge has seen more than a fraction of the objects.

If they are authentic, the lead objects tell a teasing Judeo-Christian story. There is writing in an ancient script, Paleo-Hebrew, which was used by Jews largely for ceremonial purposes. The writing is mostly indecipherable; it may be in code. The imagery features the Jewish feast of Sukkot, which is both a harvest thanksgiving and a celebration of the Jews' sojourn in Egypt. During this festival, celebrants brandish palm fronds (bound up with willow and myrtle) in one hand and a lemon-like fruit, the etrog, in the other. This is familiar Jewish material, but some may ask what it has to do with Christianity.

A good question. In various forms, most Jewish festivals found their way into the Christian calendar. Imagery and language from Sukkot occur at many moments in the Christian year; in the stories of Christ's birth, baptism, transfiguration, and most obviously at Palm Sunday, when Christians wave palms (or in Russia, willow twigs) to commemorate Christ's entry into Jerusalem on a donkey. In Christian commentaries on the Hebrew Scriptures, it is stressed that Sukkot was associated with the advent of the Messiah and with the coming of all nations to worship in Jerusalem. So images of Sukkot would be dear to the heart of Hebrew Christians.

None of that proves a Christian connection. The imagery might also be consistent with an alternative theory which was aired in the *Jewish Chronicle*, a British weekly: that the codices belonged to forerunners of the mystical tradition which became known as Kabbalah. But by stirring a discussion about the resonance of certain images to Jews and Christians alike, the lead objects have refocused attention on a deep but contentious commonality.

Mike Campbell

Mike Campbell, farmer of Zimbabwe, died on April 6th, aged 78



HE COULDN'T say he hadn't been warned. In 2000, just as Robert Mugabe's land reforms gathered pace, 20 or 30 young black "war veterans" appeared at Mike Campbell's farm, Mount Carmel, near Chegutu, 60 miles south-west of Harare. They seemed set on staying. According to a government requisition order of 1999, this land belonged to them and to the poor blacks of Zimbabwe.

Mr Campbell offered them a shed to sleep in; he didn't want them chopping down his trees to build their huts. From that point, hoodlums from Mugabe's Zanu-PF Party kept turning up. Over the years, everything went. They stole the irrigation pumps and tractors he'd used to turn his 3,000 acres of veld into mango and citrus groves so lush that he had become the leading grower in Zimbabwe, selling his fruit to Marks & Spencer in England. They rustled his cattle, a special Sussex/Mashona herd of small, hardy beasts. They even stole the copper telephone wires on which the bright blue bee-eaters would sit and flash, and set fires round his stone-and-thatch farmhouse which he couldn't put out, except with the garden hose he used to water his roses.

Within the first year they burned down his pride and joy, the Biri River Safari Lodge. This was his boyhood dream of a place: giraffe, impala, warthogs, game birds, and so many white-tailed wildebeest that even his German sea-captain ancestor, who had started farming and breeding wildebeest near the Cape in 1713, might have envied him. But systematically the invaders killed them. That was the worst until, in June 2008, the thugs broke into his house, abducted

him and beat him up so badly, together with his wife, that his brain was damaged. A year later, he was forced out at gunpoint; 15 months later the farmhouse burned down. One of those uncontrollable veld fires, said the police.

All that time he fought to hold on. At one stage he sent the china and silver away for safety, as well as his favourite military chest; but then he thought it better to let the workers and servants see stuff coming into the house, and planting and buying going on. The land, after all, was his. He had first seen it as a soldier, up from South Africa to help defend Ian Smith's Rhodesia against Mugabe's guerrillas, and liked it so much that he had given up his businesses at home to settle there. He bought it fair and square on the open market in 1975-though it had to be stocked with guns like an armoury during those war years-and got a huge loan from the Land Bank to do so, which took him 24 years to repay. Mugabe came to power in 1980, but in 1999 the government declared "no interest" in his land, and he got title. He wasn't moving.

Several of his white neighbours thought he was being too difficult, preferring to keep quiet, even giving to the Zanu-PF donation-gatherers when they called round. If they came to Mount Carmel Mr Campbell would tell them, straight, that the country was a disaster with no diesel or electricity, tea or sugar; so he wasn't paying a cent to them. And when Nathan Shamuyarira, Mugabe's minister of information, turned up with his retinue to say that the farm now belonged to him personally, or a relative of the minister appeared in his Toyota Prado taking pictures of "our" orchards, Mr Campbell told him he would have to kill him first.

Leaving the dogs

In his opinion, blacks couldn't run large farms. They just divided the land into plots and picked at them, subsistence farming. Fifty of them had taken over the spread next door, trying to grow cotton, but their efforts were pathetic. If they wanted to eat, blacks needed white farmers. Or they needed jobs like the ones he could give them, a square deal. They would just be driven to stealing otherwise. He hadn't supported apartheid in his youth, but in the army and in Rhodesia, he said, he had changed his mind. And his workers, 500 of them counting wives and children, didn't dislike him for it; when the invaders attacked Mount Carmel they defended it, and when he came back after his beating-pretty unsteady on his legs-some of them hugged him. "We love these guys," he said.

He kept on seeking legal redress, of course. As the government notices of intent kept coming, he applied for a protection order. In 2005, though, an amendment to the Zimbabwean constitution allowed the seizure of white land without court review or compensation. He went higher then, and in 2007 sued Mr Mugabe before the tribunal of the Southern African Development Community. Though 77 other white farmers eventually joined him, he was the first and foremost: *Mike Campbell v Republic of Zimbabwe*. And, astonishingly, he won-though the tribunal said it would have ruled differently if his land had really been given to poor blacks, rather than the president's cronies.

Not that his victory made much difference. The thugs moved in, and in September 2009 the farm was burned, notwithstanding. Mr Campbell had left most of his things there, as well as the dogs, the cats, the hens and the old brown horse, in the firm belief that he would return. Instead, he ended his days in poverty in Harare. The last mango crop was sold for the minister's profit, or rotted to purplish pulp in the pack sheds. Nature crept back, like the veld grass, to restate her original claim.
